NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS

Congressional Information Service, Inc
Washington, D.C.

99th Congress
1st Session

COMMITTEE PRINT

WMCP: 99-2

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

BACKGROUND MATERIAL AND DATA ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

FEBRUARY 22, 1985

Prepared for the use of the Committee on Ways and Means by its staff

U.S. GOVERNMENT PRINTING OFFICE
42-653 O
WASHINGTON : 1985

4782-~~A~~ 2

COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida
J. J. PICKLE, Texas
CHARLES B. RANGEL, New York
FORTNEY H. (PETE) STARK, California
JAMES R. JONES, Oklahoma
ANDY JACOBS, Jr., Indiana
HAROLD FORD, Tennessee
ED JENKINS, Georgia
RICHARD A. GEPHARDT, Missouri
THOMAS J. DOWNEY, New York
CECIL (CEC) HEFTEL, Hawaii
WYCHE FOWLER, Jr., Georgia
FRANK J. GUARINI, New Jersey
MARTY RUSSO, Illinois
DON J. PEASE, Ohio
ROBERT T. MATSUI, California
BERYL ANTHONY, Jr., Arkansas
RONNIE G. FLIPPO, Alabama
BYRON L. DORGAN, North Dakota
BARBARA B. KENNELLY, Connecticut
BRIAN J. DONNELLY, Massachusetts
WILLIAM J. COYNE, Pennsylvania

JOHN J. DUNCAN, Tennessee
BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
PHILIP M. CRANE, Illinois
BILL FRENZEL, Minnesota
RICHARD T. SCHULZE, Pennsylvania
BILL GRADISON, Ohio
W. HENSON MOORE, Louisiana
CARROLL A. CAMPBELL, Jr., South Carolina
WILLIAM M. THOMAS, California
RAYMOND J. McGRATH, New York
HAL DAUB, Nebraska
JUDD GREGG, New Hampshire

Joseph K. Dowley, *Chief Counsel*
M. Kenneth Bowler, *Deputy Chief of Staff*
Robert J. Leonard, *Chief Tax Counsel*
A. L. Singleton, *Minority Chief of Staff*

PREFACE

This document has been prepared for the use of the Committee on Ways and Means by its staff in conjunction with the committee's consideration of possible revisions in the various programs under its jurisdiction.

The book is divided into four parts:

Part 1—Description of programs providing benefits or services to individuals within the jurisdiction of the Committee on Ways and Means.

Part 2—Description of trust funds for which the Committee on Ways and Means has revenue jurisdiction.

Part 3—Revenues.

Part 4—Other matters within the jurisdiction of the Committee on Ways and Means including public debt, the Pension Benefit Guarantee Corporation, and capital construction funds.

Within part 1, there are summary tables indicating the relative size and recent growth of the individual programs. For each of the programs, there is extensive information on:

(a) Who is eligible for the program;
(b) How the payment is actually computed;
(c) How the program is financed, and for programs financed from trust funds, the shortrun and longrun financial solvency of those funds;
(d) Characteristics of individuals served by the program;
(e) Interactions with other major programs, and
(f) Historical information about how the program has evolved.

For the programs described in part 2, a brief legislative history, the current financing mechanism, and the financial status of the trust fund is presented.

Finally, the document contains 13 appendices setting out in detail:

(a) Statistical history of the social security programs;
(b) Tables describing the demographic and economic resources of the elderly;
(c) National health expenditures and health care expenditures of the elderly;
(d) How medicare reimburses hospitals and doctors;
(e) A description of the medicaid program;
(f) Unemployment data and historical tables on unemployment compensation;
(g) A short description of the food stamp program;
(h) A short description of the low-income energy assistance program;

(i) Budgetary impact of legislative changes enacted during 1981 to 1984 for spending programs within the jurisdiction of the Committee on Ways and Means;

(j) Characteristics and poverty status of families with children and combined Federal impact of AFDC, Food Stamps, and Federal taxes on families: selected years 1960 to 1984;

(k) Selected economic and population data for the United States and by State; and

(l) A description of quality control statistics.

The committee wishes to express its appreciation to the many individuals for their contributions and long hours toward completing this project. In particular the committee wishes to recognize:

(1) The Congressional Research Service of the Library of Congress for assistance in preparing section 7 of part 1, section 2 of part 3, and Appendices C, D, E, F, G, H, and J; their assistance in updating the tables in sections 7, 8, and 11;

(2) The Congressional Budget Office for their analysis of the impact of the 1981 to 1984 legislative changes described in Appendix I, for the summary tables in section 1 of part 1 and the projections of the OASI, DI, and HI trust funds;

(3) The Social Security Administration for its assistance in updating the tables in sections 2, 3, 8, and 10 of part 1, Appendix A, and for some of the tables in Appendix B;

(4) The Health Care Financing Administration for updating tables in section 4 of part 1 and Appendices C, D, and E;

(5) The Office of the Actuary (Social Security Administration) for assistance with section 5 of part 1;

(6) The Department of Labor for their assistance in updating tables in sections 6 and 7 of part 1 and Appendix F;

(7) The staff of the Railroad Retirement Board for their assistance in updating sections 12 and 13 in part 2; and

(8) The Bureau of the Census for updating tables in Appendixes B and K.

This material has been assembled in a limited amount of time in order that it be available to the Members for use in connection with their deliberations on various budget issues presently pending before the committee. Comments as to how the contents or format of this document could be improved are most appreciated and will help in future revisions so that it can better serve as a resource tool.

CONTENTS

Page

Preface III

PART 1. DESCRIPTION OF PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS PROVIDING BENEFITS OR SERVICES TO INDIVIDUALS

Section 1. Summary tables illustrating growth of Federal expenditures for programs under Ways and Means jurisdiction 3

Section 2. The old-age and survivors insurance programs (OASI) 14
- Benefits 14
- Benefit eligibility: Insured status 17
- Benefit computation 18
- Benefit amounts 22
- Benefit reduction and increase 24
- Automatic benefit adjustments 27
- Taxation of Social Security (OASDI) benefits for higher income persons 28
- Legislative changes made in the 97th Congress 29
- Legislative changes made in the 98th Congress 30
- Characteristics of beneficiary population 32
- Reports and studies 40

Appendix A. Statistical history and future benefit projections of the social security programs 45
- Coverage 45
- Benefits 50
- Financing 67

Appendix B. Demographic and economic characteristics of the aged 74

Section 3. Disability insurance program 99
- Benefits 99
- Benefit computation 101
- Determination of disability 103
- Vocational rehabilitation 107
- Disability claims and appeals structure 107
- Recent experience in the disability program 111
- Characteristics of DI beneficiaries 113
- Recent legislative changes 115

Section 4. Medicare 122
- Eligibility 122

Page
Number of beneficiaries 122
Coverage 124
Benefits 124
Administration 128
End stage renal disease program 130
Home health 132
Hospice care 133
Skilled nursing facility 134
Utilization and quality control peer review program 135
Financing 136
Financial status of the trust funds 138
Recent legislative changes 145
1984 legislative changes 150
Reports and studies 161

Appendix C. National health care expenditures and expenditures for health care of the elderly 166

Appendix D. Reimbursement for hospitals and physicians under medicare 187
Reimbursements to hospitals 187
Reimbursement to physicians 213

Appendix E. Brief explanation of medicaid program and interaction with AFDC, SSI, and medicare programs 220

Section 5. OASDHI financing 234
Current law financing 234
History of financing structure 238
Impact of Social Security Amendments of 1983 243
Current short-range status of the trust funds 246
Long range status of the trust funds 253
Economic and demographic assumptions 259

Section 6. Trade adjustment assistance 263
Trade adjustment assistance program for workers 263
Trade adjustment assistance program for firms 269
Legislative changes during 1984 272

Section 7. Unemployment compensation 274
Overview 274
Benefits 279
Extended benefits 288
Federal supplemental compensation 290
Hypothetical benefit levels for various workers in selected regular State programs 292
Financing 293
Administration's fiscal year 1985 financial projections 302
Administrative financing and allocation 305
Recent major legislation 307

Appendix F. Statistical data on unemployment and historical information on the unemployment compensation program 310

Section 8. Aid to families with dependent children (title IV-A) 329
Eligibility 329
Treatment of earnings 330
Monthly reporting and retrospective budgeting 331

Page
Work requirements and programs 332
Treatment of resources 340
AFDC for unemployed parents (AFDC–UP) 340
Interaction between AFDC and other programs 341
Current benefit levels and trends 343
Financing 354
Federal and State expenditures 357
The 1984 caseload and recent trends 362
Characteristics of AFDC families 365
Turnover within the AFDC caseload 372
The 1984 amendments 373
Impact of 1981 program changes 376
Budgetary estimates of 1981–83 legislative changes in the AFDC program 378

Section 9. Child support enforcement program 381
Background 381
Who is served 381
The Federal role 382
Federal enforcement tools 383
The State role 384
Federal garnishment and military allotment provisions 386
Financing 387
Program trends 388
Demographic trends 407
Legislative changes in the 98th Congress 411
Legislative changes in the 97th Congress 416

Appendix G. The food stamp program 417

Section 10. Earned income tax credit 428
Eligibility 428
Benefits 428
Interaction with AFDC and food stamps 429
Data 429
1984 legislative action 430

Section 11. SSI program description 432
Basic eligibility 432
SSI benefit standards 432
Income disregards 435
Resources 436
Deeming of income and resources 437
Restriction on SSI eligibility of residents of public institutions 438
State supplementation 438
State SSI supplementation levels over time 443
State supplementation for special housing needs 443
Comparison of SSI payment levels to poverty thresholds 444
SSI program costs 446
Number of recipients: 1970–86 (projected) 449
Eligibility of SSI recipients for medicaid 451
Eligibility of SSI recipients for food stamps 451
Characteristics of the SSI population 451
Special SSI benefits, continued medicaid services, and related provisions for the working disabled 456
Legislative action during 1984 and prior years 463

Page
Appendix H. Low-income home energy assistance program (LIHEAP) 467
  Allotments to States and territories 467
  Eligibility and types of assistance 469
  Planning and administration 472
Section 12. Title XX social service programs 474
  Title XX social services 1974-81 474
  Title XX social services block grant 474
  Special title XX funding for child day care staff and parent training related to preventing child abuse 475
  Planning and administrative requirements 478
  Title XX program goals 478
  Recipients of title XX funded social services 479
  Types of social services provided under title XX 479
Section 13. Child welfare, foster care, and adoption assistance program—title IV, parts B and E 482
  Child welfare and foster care reforms 485
  Financial incentives to States to implement improved child welfare services and procedures 490
  Adoption assistance program 492
  Implementation of child welfare and foster care reforms. 493
Appendix I. Explanation and impact of major changes enacted into law during 1981 to 1984 for spending programs within the jurisdiction of the Committee on Ways and Means 498
Appendix J. Characteristics and poverty status of families with children and combined impact of AFDC, food stamps, and Federal taxes on families: selected years 1960-84 505
Appendix K. Selected economic and population data for the United States and by State 540
Appendix L. Quality control systems 547

PART 2. TRUST FUNDS (OR SPECIAL FUNDS) WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Section 1. Black lung disability trust fund 565
Section 2. Airport and airway trust fund 570
Section 3. Highway trust fund 577
Section 4. Aquatic resources trust fund 586
Section 5. Superfunds 589
  (A) Hazardous substance response trust fund 589
  (B) Post-closure liability trust fund 592
Section 6. Inland waterways trust fund 595
Section 7. Land and water conservation fund 597
Section 8. Wildlife restoration projects 601
Section 9. Reforestation trust fund 603
Section 10. Deep seabed revenue sharing trust fund 605
Section 11. Tax Court judges survivors annuity fund 607

Page
Section 12. Railroad retirement system 610
Section 13. Railroad unemployment compensation system 622

PART 3. REVENUES

Section 1. Summary information 629
Section 2. Bibliographic information 643

PART 4. OTHER MATTERS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Section 1. Public debt, debt management, and interest payments 651
Section 2. The Federal Financing Bank 659
Section 3. Pension Benefit Guaranty Corporation 662
Section 4. Capital construction fund 666

PART 1

DESCRIPTION OF PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS PROVIDING BENEFITS OR SERVICES TO INDIVIDUALS

Section 1.—Summary Tables Illustrating Growth of Federal Expenditures for Programs Under Ways and Means Jurisdiction

SUMMARY TABLE 1.—TOTAL FEDERAL EXPENDITURES FOR SPENDING PROGRAMS UNDER WAYS AND MEANS JURISDICTION FOR FISCAL YEARS 1970, 1975, 1980, 1983, AND 1984

[In billions of dollars]

Social Security (OASDI)	30.3	64.7	118.5	172.3	180.9
Social Security (OASI)	(27.3)	(56.7)	(103.2)	(154.0)	(162.4)
Social Security (DI)	(3.0)	(8.0)	(15.3)	(18.3)	(18.5)
Medicare	7.2	14.8	35.0	56.9	62.7
Medicare—Part A	(5.0)	(10.6)	(24.3)	(38.6)	(42.3)
Medicare—Part B	(2.2)	(4.2)	(10.7)	(18.3)	(20.4)
Trade adjustment assistance	(1)	(1)	1.6	(1)	(1)
Unemployment insurance, regular benefits	3.3	11.2	13.4	23.0	15.2
Unemployment insurance, extended benefits and Federal supplemental compensation	(1)	2.1	1.1	8.0	3.1
Aid to families with dependent children (AFDC)	2.5	5.1	6.6	7.9	8.3
Child support enforcement (CSE)	(1)	(1)	.4	.5	.5
Supplemental security income (SSI)	[2] 2.0	4.7	6.4	8.7	8.5
Title XX social services program	.5	2.0	2.7	2.5	2.8
Title IV–B child welfare program and foster care	.1	.4	.4	.6	.7
Earned income tax credit [4]	(1)	1.3	1.3	1.2	1.2
Total [5]	45.9	106.3	187.4	281.7	283.9
Net interest	14.4	23.2	52.5	89.8	111.1
Total [5] (including interest)	60.3	129.5	239.9	371.5	395.0

[1] No program or outlays less than $50,000,000.
[2] Adult cash welfare programs that preceded SSI.
[3] $46,000,000.
[4] These amounts reflect only the outlay portion of the credit.
[5] Totals may not add due to rounding.

Note.—Included in "Unemployment insurance, regular benefits" are regular benefits, unemployment compensation for ex-service members and Federal employees and Federal and State administrative costs. "Unemployment insurance, extended benefits" includes special unemployment assistance and Federal supplemental benefits. Medicare Part B expenditures have not been adjusted by subtracting premiums paid by Part B enrollees.

Source: Various OMB Budget Appendixes.

SUMMARY TABLE 2.—AVERAGE NUMBER OF RECIPIENTS IN PROGRAMS UNDER WAYS AND MEANS JURISDICTION FOR FISCAL YEARS 1970, 1975, 1980, 1983, AND 1984

[Numbers in thousands]

Programs	Fiscal year—				
	1970	1975	1980	1983	1984
Social Security (OASI) [1]	22,827	26,941	30,466	32,137	32,446
Social Security (DI) [1]	2,488	3,911	4,770	3,916	3,823
Medicare—Part A [2]	20,000	23,700	27,400	29,127	29,601
Medicare—Part B [2]	19,200	23,300	27,100	28,624	29,244
Trade adjustment assistance [3]	([4])	([4])	532	30	24
Unemployment insurance, regular benefits [5]	1,071	2,902	2,698	3,353	2,150
Aid to families with dependent children (AFDC) (includes foster care) [6]	7,426	11,078	10,499	10,641	10,835
Earned income tax credit [7]	([4])	6,215	6,954	6,250	NA
Supplemental security income (SSI)	[8] 2,958	[6] 4,096	4,160	3,509	3,609

[1] Number enrolled at mid-point of fiscal year.
[2] Persons with protection.
[3] Total number of recipients throughout the year.
[4] No program or outlays less than $50,000,000.
[5] Average weekly number.
[6] Average monthly number.
[7] Calendar year—number of families receiving EITC.
[8] Number at mid-point of fiscal year in adult cash welfare programs that preceded SSI.

NA—Not available.

Note.—Figures represent an estimate of the number of recipients at a given point during the year—not all recipients during the entire year.

Source: Various OMB Budget Appendices.

SUMMARY TABLE 3.—AVERAGE EXPENDITURE PER RECIPIENT (ENROLLEE) FOR MAJOR PROGRAMS UNDER WAYS AND MEANS JURISDICTION FOR FISCAL YEARS 1970, 1975, 1980, 1983, AND 1984

[In dollars]

Programs	Fiscal year—				
	1970	1975	1980	1983	1984
Social Security (OASI) (annual)	1,197	2,104	3,387	4,792	5,005
Social Security (DI) (annual)	1,206	2,040	3,208	4,673	4,824
Medicare total	362	627	1,282	1,964	2,126
Part A (annual)	248	448	886	1,325	1,429
Part B (annual)	114	179	396	639	697
Unemployment insurance, regular benefits (weekly) [1]	46	66	96	120	119
Aid to families with dependent children (AFDC) [2] (annual family benefit)	2,149	2,424	3,228	3,720	3,852
Earned income tax credit [1, 5]	([3])	201	286	286	NA
Supplemental security income (SSI) (annual)	[4] 672	1,145	1,547	[6] 2,295	2,355

[1] Benefit, amount excludes administrative costs.

[2] Average annual benefit per family. This amount includes State expenditures.

[3] No program or outlays less than $50,000,000.

[4] Adult cash welfare programs that preceded SSI.

[5] Calendar year average per family.

[6] Adjusted to reflect 12 months of benefits instead of 13.

NA—Not available.

Source: Various OMB Budget Appendices.

SUMMARY TABLE 4.—AVERAGE EXPENDITURE IN CONSTANT 1984 DOLLARS PER RECIPIENT (ENROLLEE) FOR MAJOR PROGRAMS UNDER WAYS AND MEANS JURISDICTION FOR FISCAL YEARS 1970, 1975, 1980, 1983, AND 1984

[In dollars]

Programs	Fiscal year—				
	1970	1975	1980	1983	1984
Social Security (OASI) (annual)	3,256	4,162	4,329	5,017	5,005
Social Security (DI) (annual)	3,280	4,035	4,100	4,893	4,824
Medicare total	985	1,240	1,638	2,056	2,126
Part A (annual)	675	886	1,132	1,387	1,429
Part B (annual)	310	354	506	669	697
Unemployment insurance, regular benefits (weekly)	125	131	123	126	119
Aid to families with dependent children (AFDC) (annual family benefit)	5,845	4,795	4,125	3,895	3,852
Earned income tax credit	([1])	398	366	299	286
Supplemental security income (SSI)[2] (annual)	1,828	2,265	1,977	[3] 2,403	2,355

[1] No program or outlays less than $50,000,000.

[2] Adult cash welfare programs that preceded SSI.

[3] Adjusted to reflect 12 months of benefits instead of 13.

NA—Not available.

Note.—The average expenditure (benefit) in table 3 was converted into constant 1984 dollars using the CPI–U consumer price index.

SUMMARY TABLE 5.—CBO BASELINE PROJECTIONS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS FOR FISCAL YEARS 1984–90

[In billions of dollars]

	1984	1985	1986	1987	1988	1989	1990
Social Security	180.9	191.4	202.3	215.3	229.0	243.3	259.2
OASI	162.4	172.1	182.3	194.4	207.2	220.7	235.6
DI	18.5	19.3	20.0	20.9	21.8	22.7	23.6
Medicare	62.7	70.4	77.2	86.2	96.5	108.0	120.8
Health insurance	42.3	47.9	51.5	56.9	63.0	69.8	77.4
Supplementary medical insurance	20.4	22.4	25.8	29.3	33.5	38.2	43.5
Trade adjustment assistance	([1])	([1])	.1	.1	.1	.1	.1
Unemployment assistance	18.3	17.3	17.2	17.5	17.7	18.0	18.2
AFDC	8.4	8.5	8.6	8.8	9.2	9.4	9.7
Child support	.5	.5	.7	.7	.8	.8	.8
Earned income tax credit	1.2	1.1	1.3	1.3	1.2	1.1	1.1
SSI	8.5	9.7	9.9	10.3	11.7	11.4	11.0
Social services (title XX)	2.8	2.9	2.7	2.7	2.7	2.7	2.7
Child welfare, foster care, adoption assistance	.7	.7	.8	.9	.9	1.0	1.1
SMI premiums	−5.0	−5.5	−6.3	−7.1	−7.7	−8.2	−8.8
Total	278.9	296.8	314.5	336.6	362.0	387.6	415.9

[1] Less than $50 million.

Note.—SSI estimates include 13 months of benefits in fiscal year 1988. Fiscal year 1984 includes 11 months of benefits.

Source: Congressional Budget Office.

SUMMARY TABLE 6.—CBO BASELINE REVENUE PROJECTIONS BY SOURCE

[By fiscal year, in billions of dollars]

	1984 actual	Projections					
		1985	1986	1987	1988	1989	1990
Individual income taxes	298	333	361	393	432	471	515
Corporate income taxes	57	63	71	88	96	102	107
Social insurance taxes:							
Old age, survivors, and disability insurance (OASDI)	166	187	199	214	241	262	288
Hospital insurance (HI)	40	45	51	56	60	64	69
Unemployment insurance	25	26	25	23	23	23	23
Other	8	8	8	9	9	9	9
Excise taxes:							
Windfall profit taxes	9	7	5	4	4	4	3
Other	28	31	29	31	30	30	31
Estate and gift taxes	6	6	5	5	5	5	5
Customs duties	11	12	13	14	15	15	16
Miscellaneous receipts	17	18	18	19	19	20	21
Total baseline revenues	666	735	788	855	934	1,005	1,088

SUMMARY TABLE 7.—FEDERAL REVENUES BY SOURCE AS A PERCENTAGE OF TOTAL REVENUES FOR FISCAL YEARS 1970, 1975, 1980, 1983, 1986, AND 1990

Revenue source by type of tax	Fiscal year—					
	1970	1975	1980	1983	1986	1990
Individual income	46.7	43.6	47.2	47.2	45.8	47.3
Corporate income	16.9	14.5	12.5	6.6	9.0	9.8
Social insurance	23.4	30.8	30.5	35.0	35.9	35.8
Excise	8.1	5.9	4.7	6.2	4.3	3.1
Estate and gift	1.9	1.6	1.2	1.0	.6	.5
Other	3.0	3.6	3.9	4.0	3.9	3.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note.—Columns may not add to 100.0 due to rounding.

SUMMARY TABLE 8.—WAYS AND MEANS PROGRAM OUTLAYS COMPARED WITH TOTAL FEDERAL GOVERNMENT OUTLAYS FOR SELECTED YEARS

[In billions of dollars]

	1970	1975	1980	1983	1986 [1]	1990 [1]
Social Security (including medicare)	37.5	79.5	153.5	229.2	280	380
Unemployment compensation and trade adjustment assistance	3.3	13.3	16.1	31.0	17	18
Public assistance and social services (AFDC, SSI, title XX, EITC, and child welfare programs)	5.1	13.5	17.8	21.4	24	26
Other entitlement programs	21.9	51.5	92.0	118.5	124	154
Nondefense discretionary spending	43.6	75.6	141.2	143.8	174	211
National defense	81.7	86.5	134.0	210.0	282	424
Net interest	14.4	23.2	52.5	90.0	146	230
Offsetting receipts	−11.7	−18.4	−30.4	−48.0	−52	−65
Total	195.7	324.2	576.7	795.9	995	1,378

[1] Based upon CBO baseline current law projections.

SUMMARY TABLE 9.—WAYS AND MEANS PROGRAM OUTLAYS COMPARED WITH TOTAL FEDERAL OUTLAYS IN PERCENTAGE TERMS FOR SELECTED YEARS

	1970	1975	1980	1983	1986 [1]	1990 [1]
Social Security (including medicare)	19.2	24.5	26.6	28.8	28.1	27.6
Unemployment compensation and trade adjustment assistance	1.7	4.1	2.8	3.9	1.7	1.3
Public assistance and social services (AFDC, SSI, title XX, EITC, low income energy assistance and child welfare programs)	2.6	4.2	3.1	2.7	2.4	1.9
Other entitlement programs	11.1	15.8	15.9	14.9	12.5	11.2
Nondefense discretionary spending	22.3	23.3	24.5	18.1	17.5	15.3
National defense	41.7	26.7	23.2	26.4	28.3	30.8
Net interest	7.4	7.2	9.1	11.3	14.7	16.7
Offsetting receipts	−6.0	−5.7	−5.3	−6.0	−5.2	−4.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
Ways and Means programs as percent of total Federal Government outlays, less interest	25.3	35.3	35.7	39.9	37.8	37.0

[1] Based on CBO baseline current law projections.

SUMMARY TABLE 10.—BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (BY FISCAL YEAR)

	1985	1986	1987	1988	1989	1990
	In billions of dollars					
Baseline revenues:						
High-growth alternative	736	803	896	1,018	1,156	1,341
CBO baseline projection	735	788	855	934	1,005	1,088
Low-growth alternative	730	777	798	806	858	935
Baseline outlays:						
High-growth alternative	934	985	1,069	1,178	1,304	1,460
CBO baseline projection	938	995	1,080	1,174	1,270	1,378
Low-growth alternative	939	1,000	1,087	1,182	1,264	1,354
Baseline unified budget deficit:						
High-growth alternative	210	190	181	168	154	126
CBO baseline projection	214	215	233	249	272	296
Low-growth alternative	220	232	298	384	412	425
	As a percent of GNP					
Baseline revenues:						
High-growth alternative	19.0	19.0	19.3	19.8	20.1	20.5
CBO baseline projection	19.1	19.0	19.1	19.3	19.3	19.4
Low-growth alternative	19.0	18.9	18.7	18.7	18.6	19.1
Baseline outlays:						
High-growth alternative	24.2	23.2	23.0	22.9	22.6	22.3
CBO baseline projection	24.3	23.9	24.1	24.3	24.4	24.6
Low-growth alternative	24.5	24.3	25.4	27.4	27.3	27.6
Baseline unified budget deficit:						
High-growth alternative	5.4	4.5	3.9	3.3	2.7	1.9
CBO baseline projection	5.6	5.2	5.1	5.2	5.2	5.3
Low-growth alternative	5.7	5.6	7.0	8.9	8.9	8.7

Source: Congressional Budget Office.

SUMMARY TABLE 11.—ECONOMIC ASSUMPTIONS (BY CALENDAR YEAR)

	1985	1986	1987	1988	1989	1990
Gross national product (GNP):						
Real GNP (percent change, year to year):						
High-growth alternative	4.0	4.8	4.5	4.6	4.6	4.6
CBO baseline projection	3.5	3.2	3.3	3.4	3.4	3.4
Low-growth alternative	2.7	2.8	−1.8	−0.1	4.7	3.8
Prices:						
GNP Implicit Price deflator (percent change, year to year):						
High-growth alternative	3.6	4.7	5.1	6.2	7.4	9.0
CBO baseline projection	3.6	4.6	4.4	4.2	4.2	4.2
Low-growth alternative	3.6	4.4	3.7	2.8	2.2	2.3
Consumer Price Index (percent change, year to year):						
High-growth alternative	3.7	4.7	5.1	6.2	7.4	9.0
CBO baseline projection	3.7	4.5	4.2	4.2	4.2	4.2
Low-growth alternative	3.7	4.4	3.7	2.8	2.2	2.3
Civilian Unemployment rate: (percent, annual average):						
High-growth alternative	6.9	6.3	5.8	5.4	5.1	4.7
CBO baseline projection	7.1	6.9	6.7	6.6	6.4	6.2
Low-growth alternative	7.4	7.3	9.0	10.1	9.2	8.7
Interest rate (91-day Treasury bills, percent, annual average):						
High-growth alternative	6.9	7.6	8.5	10.3	11.8	13.7
CBO baseline projection	8.3	8.7	8.2	8.2	8.2	8.2
Low-growth alternative	8.5	9.0	6.0	6.5	7.0	7.5

Source: Congressional Budget Office.

SUMMARY TABLE 12.—SOURCES OF GROWTH IN CBO BASELINE SPENDING RELATIVE TO 1985 OUTLAYS

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Defense:					
Real defense growth	6	19	37	57	81
Inflation adjustments:					
Pay	2	6	10	15	20
Purchases	4	11	20	31	42
Subtotal	6	16	30	46	62
Other increases [1]	18	26	28	30	30
Subtotal	30	61	95	132	172
Entitlements and other mandatory spending:					
Cost-of-living adjustments	8	20	33	46	59
Medical cost increases	5	11	17	25	33
Caseload increases	6	12	18	25	31
Increased medical care utilization	2	5	8	12	17
Low-income housing notes [2]	−13	−13	−13	−13	−13
Other increases [1]	2	7	10	11	14
Subtotal	9	41	74	106	141
Nondefense discretionary spending inflation adjustments:					
Pay	1	2	4	6	8
Purchases	2	7	12	19	25
Subtotal	3	9	16	25	34
Other increases [1]	3	6	7	8	10
Subtotal	6	15	23	33	44
Net interest	15	33	56	75	100
Offsetting receipts	−4	−8	−12	−14	−18
Growth in unified budget outlays	56	142	236	332	440
Off-budget Federal entities	−2	−3	−3	−5	−5
Growth in total outlays	54	139	234	327	435
Memoranda (excluding low-income housing notes):					
Growth in entitlements and other mandatory spending	22	54	87	119	154
Growth in total outlays	67	152	246	340	448

---

[1] Includes adjustment for full-year effect of January 1985 pay raises and cost-of-living adjustments.

[2] Reflects one-time purchase of outstanding low-income public housing notes in 1985.

SUMMARY TABLE 13.—EFFECTS ON CBO BASELINE BUDGET PROJECTIONS OF SELECTED CHANGES IN ECONOMIC ASSUMPTIONS

[By fiscal year, in billions of dollars]

Economic variables	1985	1986	1987	1988	1989	1990
Real growth: Effect of 1-percentage-point higher annual rate beginning January 1985:						
Change in revenues	5	16	32	50	70	92
Change in budget outlays	–1	–3	–8	–14	–23	–35
Change in total deficit	–5	–19	–40	–64	–93	–128
Unemployment: Effect of 1-percentage-point lower annual rate beginning January 1985:						
Change in revenues	20	32	34	35	37	39
Change in budget outlays	–4	–7	–12	–17	–22	–28
Change in total deficit	–24	–40	–46	–52	–59	–68
Interest rates: Effect of 1-percentage-point higher annual rates beginning January 1985:						
Change in revenues	([1])	1	1	1	1	1
Changes in budget outlays	3	10	15	22	26	33
Change in total deficit	3	9	14	21	25	31
Inflation: Effect of 1-percentage-point higher annual rate beginning January 1985:						
Assuming inflation adjustments in discretionary appropriations:						
Change in revenues	5	13	24	36	49	64
Change in budget outlays	3	13	25	40	54	71
Change in total deficit	–2	([1])	([1])	4	5	7
Assuming no change in discretionary appropriations:						
Change in revenues	5	13	24	36	49	64
Change in budget outlays	3	12	19	29	35	43
Change in total deficit	–2	–1	–5	–8	–14	–21

---

[1] Less than $500 million.

Section 2. The Old-Age and Survivors Insurance Programs (OASI)

The old-age and survivors insurance (OASI) program provides monthly benefits to retired workers and their dependents and to survivors of insured workers. Old-age retirement benefits were provided for retired workers by the original Social Security Act of 1935, and benefits for dependents and survivors were provided by the 1939 amendments. The disability insurance (DI) program, enacted in 1956, and the hospital insurance (HI) program, enacted in 1966, are closely related to the old-age and survivors insurance program. (These related programs are discussed in the later sections.)

GENERAL

A worker builds protection under these programs through employment which is covered by the social security system. Coverage is generally compulsory. However, employees of State and local governments are covered on a voluntary group basis. Currently, over 90 percent of the nation's workforce is covered either voluntarily or mandatorily.

Contributions are made under the Federal Insurance Contributions Act (FICA, chapter 21 of the Internal Revenue Code). Contributions are based on wages and earnings up to the annual maximum taxable wage base. The employee contribution is withheld from wage and salary payments to employees and is matched by employers. Self-employed persons (SECA, chapter 2 of the Internal Revenue Code) pay contributions on their net earnings annually up to the same maximum as employees, but at a rate that is equal to the combined employee-employer tax rate.

A portion of OASDI tax revenue is credited automatically to the Old-Age and Survivors Insurance Trust Fund. In addition, the revenue derived from the taxation of a portion of Social Security retirement and survivors' benefits is deposited in the OASI trust fund. The trust fund is the source of payment for: (1) monthly benefits when the worker retires, or dies (including a financial interchange with the railroad retirement system) and (2) administrative expenses for the program. No funds are disbursed for any other purpose.

BENEFITS

Summary

Monthly cash benefits under OASI are paid as a matter of earned right to workers who are insured for benefits and to their eligible dependents and survivors. Generally, benefit amounts paid both to the insured worker and to the insured worker's dependents or survivors are related to the past earnings of the insured worker. An individual may be entitled to benefits as a worker based on his own earnings history and also to benefits as a dependent of another worker. However, the amount of the benefit is adjusted so that, in effect, only the larger of the two benefits is paid.

In December 1984, there were 36.5 million beneficiaries in the old-age and survivors insurance and disability insurance programs who were in current-payment status. Monthly benefits paid out were $13.7 billion.

The following table summarizes various types of beneficiaries and average benefit amounts:

TABLE 1.—OASDI CASH BENEFITS IN CURRENT-PAYMENT STATUS, DECEMBER 1984

	Number (thousands)	Percent of beneficiary population	Average monthly benefit
Total monthly beneficiaries	36,479	100.0	$412
Retired workers	21,907	60.1	461
Wives and husbands of retired workers	3,051	8.4	236
Children of retired workers	478	1.3	186
Disabled workers	2,597	7.1	471
Wives and husbands of disabled workers	304	0.8	131
Children of disabled workers	921	2.5	139
Widowed mothers and fathers	382	1.0	322
Surviving children	2,009	5.5	314
Widows and widowers	4,672	12.8	415
Disabled widow(er)s	107	0.3	306
Parents	10	0.03	364
Special age-72	40	0.1	134

Source: Office of Research Statistics and International Policy, Social Security Administration.

Description of major benefit types

Child's benefit. A monthly benefit is payable to an unmarried child or eligible grandchild of a retired or disabled worker or of a deceased worker who was fully or currently insured at death if the child or grandchild is: (1) under age 18; (2) a full-time elementary or secondary student under age 19; (3) a full-time postsecondary school student under age 22;[1] or (4) a dependent disabled person aged 18 or over whose disability began before age 22. A grandchild is eligible for benefits on a grandparent's earnings record (or that of the spouse of such worker) if he is dependent on the grandparent for at least half his support and his parents are either disabled or deceased or, where a parent is alive, the grandparent is dead and the child has been adopted by the surviving grandparent.

Lump-sum death benefit. A lump-sum payment is payable on the death of a fully or currently insured worker to the surviving spouse who was living with the deceased worker or was eligible to receive monthly cash survivor benefits upon the worker's death. If there is no eligible spouse, the lump-sum death payment is payable to any child of the deceased worker who is eligible to receive monthly cash benefits as a surviving child. If there is no surviving spouse and no children of the worker eligible for monthly benefits, then no one is eligible to receive the lump-sum death payment. The maximum amount is $255.

---

[1] This benefit will be eliminated by May 1985 as a result of the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35).

Minimum benefit. The minimum benefit is the smallest benefit (before actuarial reduction or earnings test reduction) payable to a worker or his survivors/dependents. In 1977, the minimum benefit was frozen at $122 per month for all workers who became disabled after 1978 and all survivors of workers who died after 1978. The new frozen minimum of $122 was to have applied to all retired workers reaching age 62 in 1984 or later. However, legislation in 1981 eliminated the minimum benefit for all persons becoming eligible for benefits in January 1982 or later (except for certain members of religious orders who have taken a vow of poverty; such persons are exempt from the new law for ten years). These persons will have their benefits computed under the regular benefit computation rules. Persons already eligible for benefits prior to January 1, 1982 will be able to continue receiving the minimum benefit.

Mother's or father's benefit. A monthly benefit is payable to a widow (widower) or surviving divorced mother (father) if: (1) the deceased worker on whose account the benefit is paid was fully or currently insured at time of death and (2) the widow (widower) or surviving divorced mother (father) has one or more entitled children of the worker in his care. These payments continue until the youngest child being cared for reaches age 16.

Parent's benefit. This is the monthly benefit payable to a dependent parent, age 62 or over, of a deceased fully insured worker.

Retired-worker (old-age) benefit. This is the monthly benefit payable to a retired worker aged 62 or over who is fully insured or to a person entitled under the transitional insured-status provision in the law.

"Special age-72" benefit. This is the monthly benefit payable to certain persons born before January 2, 1900, who do not have sufficient quarters of coverage to qualify for a retired-worker benefit under either the full or the transitional insured-status provisions. The benefit is payable only for months in which the individual is a resident of the 50 States or the District of Columbia and receives no public assistance money payments or SSI payments. It is reduced by the amount of any government pension (except workers' compensation and veterans' service-connected compensation) that the individual is receiving or is eligible to receive. When husband and wife are both eligible for these benefits, a full benefit is paid to each spouse.

Special minimum benefit (OASDI). This is a benefit based upon an alternative PIA which is not based on the worker's average monthly wage or average indexed monthly earnings but on his/her length (years) of covered employment. It is designed to help those who worked in covered employment for many years but had low earnings. The amount of the special minimum is computed by multiplying the number of years of coverage in excess of 10 and up to 30 by $9 for monthly benefits before 1979 and by $11.50 for monthly benefits payable after 1978. The number of years of coverage equals the number, not to exceed 14, obtained by dividing total creditable wages in 1937–50 by $900, plus the number of years after 1950 for which the worker is credited with at least 25 percent of the annual maximum taxable earnings. For this purpose for years after 1978, annual maximum taxable earnings are based on only the automatic adjustment provisions. The special minimum benefit is not subject to the delayed-retirement-credit provisions. Beginning in 1979, the automatic cost-of-living increases apply to the special minimum benefits.

Spouse's benefit. This is the monthly benefit payable to a spouse or divorced spouse of a retired or disabled worker under one of the following conditions: (1) spouse is aged 62 or older or is caring for one or more entitled children of the worker who have not achieved age 16; (2) divorced spouse is aged 62 or older, is not married, and the marriage to the worker had lasted 10 years before the divorce became final; or (3) wife was born before January 2, 1897, and husband is transitionally insured.

Widow's or widower's benefit. These are monthly benefits payable to: (1) a widow(er) or surviving divorced spouse of a worker fully insured at the time of death if he or she is unmarried, or remarriage occurred after the widow(er)'s first eligibility for benefits; and (a) is aged 60 or older or (b) aged 50–59 and has been disabled throughout a waiting period of 5 consecutive calendar months that began no later than 7 years after the month the worker dies or after the end of her entitlement to benefits as a widowed mother; or (2) a widow of a transitionally insured worker if she was born before January 2, 1897.

BENEFIT ELIGIBILITY: INSURED STATUS

Benefits can only be paid to workers, their dependents or survivors if the worker is "insured" for these benefits. Insured status is measured in terms of "quarters of coverage."

TABLE 2.—AMOUNT OF COVERED EARNINGS NEEDED TO EARN ONE QUARTER OF COVERAGE SINCE 1977

1978	$250
1979	260
1980	290
1981	310
1982	340
1983	370
1984	390
1985	410
1986	[1] 430
1987	[1] 460
1988	[1] 490
1989	[1] 520

[1] 1984 OASDI Trustee's Report (II–B projection).

Prior to 1978, one quarter of coverage was earned for each calendar quarter in which a worker was paid $50 or more in wages for covered employment (except for agricultural labor). Since the beginning of 1978 the crediting of quarters of coverage has been on an annual rather than a quarterly basis. In 1978, a worker earned one quarter of coverage, up to a total of four, for each $250 of annual earnings reported from covered employment or self-employment. The amount of annual earnings is subject to annual automatic increases, effective in January, in proportion to increases in average wages in the economy.

For the purpose of the OASI program, there are two types of insured status: "fully insured" and "currently insured." Workers are fully insured for benefits for themselves and for their families if they have one quarter of coverage (earned at any time after 1936) for every four quarters elapsing after 1950, or the year of reaching age 21, if later, up to the year in which they reach age 62. Fully insured status is required for eligibility for all types of benefits except survivor benefits. A person must have at least six quarters of coverage to be fully insured. A person with 40 quarters of coverage is fully insured for life.

Workers are currently insured if they have six quarters of coverage during the thirteen calendar quarters ending with the quarter in which they died. Currently insured status by itself provides that the worker's surviving family members are eligible for child's, mother's, father's and lump-sum survivor benefits.

Table 3 indicates the type of insured status which is required for the various monthly benefit categories.

TABLE 3.—INSURED STATUS REQUIREMENTS FOR VARIOUS MAJOR BENEFIT CATEGORIES

Type of benefit	Basic eligibility requirements
Retirement	Fully insured.
Dependents:	
Wives, husbands	Worker entitled.
Mothers, fathers, children, grandchildren	Worker entitled.
Survivors:	
Dependent parents—age 62	Worker fully insured.
Widows, widowers	Worker fully insured.
Mothers, fathers, children	Worker fully or currently insured.
Lump-sum death	Worker fully or currently insured.

BENEFIT COMPUTATION

The amount of a monthly benefit award is determined by first computing an insured worker's average monthly wage (AMW) or—in the case of most workers who attain age 62, become disabled, or die after 1978—average indexed monthly earnings (AIME). The AMW is used in computing benefits under the old (coupled) benefit formula, and the AIME is used in computing benefits under the new (decoupled) benefit formula enacted in 1977. The AMW or AIME is linked (by a table in the law or by a formula, respectively) to the monthly retirement benefit payable at that worker's normal retirement age (NRA). This amount is called the primary insurance amount (PIA). Benefits for dependents and survivors are calculated as a percentage of the insured worker's PIA. The calculated amounts may be subject to minimum levels, and all benefits are subject to maximum limits which are stated in the law. Benefits payable to workers, spouses, widows and widowers who choose to retire before their normal retirement age are subject to an actuarial reduction. Benefits payable to workers, spouses, widows and widowers who choose to retire after their normal retirement age are subject to increase through the delayed retirement credit.

The normal retirement age [2]

The normal retirement age is the earliest age at which unreduced retirement benefits can be received. The normal retirement age will be gradually increased from age 65 to age 67 beginning in 2000. For persons attaining age 62 in 2000, the normal retirement age will be increased by 2 months—to age 65 and 2 months. In each succeeding year, the normal retirement age will be increased by 2 additional months until it reaches age 66 for persons attaining age 62 in 2005. The normal retirement age will then remain at age 66 for persons attaining age 62 through 2016. Beginning with persons attaining age 62 in 2017, the normal retirement age will again increase by 2 months each year, until it reaches age 67 for persons attaining age 62 in 2022 and later. (See table 4 for the exact schedule in increases in the normal retirement age.)

Average indexed monthly earnings (AIME)

The AIME is a dollar amount which represents the average monthly earnings, adjusted for the growth in average wages in the economy, which was received by the worker during his covered employment. Indexing creates an earnings record that reflects the value of the individual's earnings relative to national average earnings in the indexing year. The indexing year is the second year before the year in which the worker attains age 62, becomes disabled, or dies. Earnings after the indexing year are counted at their nominal value.

There are four steps in the calculation of the AIME: (1) indexing the worker's earnings for each year after 1950 by dividing the worker's posted earnings for the year being indexed by the average wages of all workers in that same year and multiplying this result by the average earnings in the indexing year, (2) determining the number of computation years—the number of years after 1950 (or the year of attainment of age 21, if later) and up to the year worker attains age 62, becomes disabled, or dies, minus dropout years, generally 5 (minimum number of computation years is 2); (3) selecting the actual computation years, based on highest earnings, from any year after 1950; and (4) dividing the sum of earnings in the computation years by the total number of months in the computation years.

These computations are illustrated in table 5 for three different workers. The actual earnings for the three workers are shown in the first three columns. These are multiplied by the indexing factor (column 4) to arrive at indexed earnings (last 3 columns of table 4). The indexing factor for 1951 is average wages when an individual turned 60 (14,531) divided by average wages for 1951 (2,799). The lowest 5 years of indexed earnings may be dropped. For example, a lifelong full-time worker earning the minimum wage would be able to drop earnings in 1955, 1972, 1973, 1983, and 1984, and would have total indexed earnings of $235,334 (see table 4). Dividing this by the number of months in the computation period (29 years×12 months=348 months) results in an average indexed monthly earnings (AIME) of $676. The corresponding AIME's for the average and maximum earners are $1,272 and $1,929.

---

[2] Changes in the normal retirement are a result of the Social Security Amendments of 1983 (P.L. 98-21).

TABLE 4.—INCREASES IN NORMAL RETIREMENT AGE FOR PERSONS REACHING AGE 62 IN EACH YEAR 1986 AND LATER

Year of birth	Year of attainment of age 62	Normal retirement age (NRA)
1924	1986	65.
1925	1987	65.
1926	1988	65.
1927	1989	65.
1928	1990	65.
1929	1991	65.
1930	1992	65.
1931	1993	65.
1932	1994	65.
1933	1995	65.
1934	1996	65.
1935	1997	65.
1936	1998	65.
1937	1999	65.
1938	2000	65, 2 mo.
1939	2001	65, 4 mo.
1940	2002	65, 6 mo.
1941	2003	65, 8 mo.
1942	2004	65, 10 mo.
1943–54	2005–16	66
1955	2017	66, 2 mo.
1956	2018	66, 4 mo.
1957	2019	66, 6 mo.
1958	2020	66, 8 mo.
1959	2021	66, 10 mo.
1960 and later	2022 and later 1986	67.

TABLE 5.—EARNINGS HISTORIES FOR HYPOTHETICAL WORKERS AGE 62 IN 1985

[Rounded to the nearest dollar]

Year	Nominal earnings			Indexing factor	Indexed earnings		
	Minimum [1]	Average [2]	Maximum [3]		Minimum	Average	Maximum
1951	1,560	2,799	3,600	5.4442	8,493	[4]15,239	19,599
1952	1,560	2,973	3,600	5.1253	7,796	[4]15,239	18,451
1953	1,560	3,139	3,600	4.8541	7,572	[4]15,239	17,475
1954	1,560	3,156	3,600	4.8292	7,534	[4]15,239	[4]17,385
1955	1,560	3,301	4,200	4.6159	[4]7,201	[4]15,239	19,387
1956	1,993	3,532	4,200	4.3142	8,598	15,239	18,120
1957	2,080	3,642	4,200	4.1846	8,704	15,239	17,575
1958	2,080	3,674	4,200	4.1481	8,628	15,239	17,422
1959	2,080	3,856	4,800	3.9523	8,221	15,239	18,971
1960	2,080	4,007	4,800	3.8030	7,910	15,239	18,255
1961	2,184	4,087	4,800	3.7289	8,144	15,239	17,899
1962	2,392	4,291	4,800	3.5511	8,494	15,239	[4]17,045
1963	2,461	4,397	4,800	3.4661	8,530	15,239	[4]16,637
1964	2,600	4,576	4,800	3.3300	8,658	15,239	[4]15,984
1965	2,600	4,659	4,800	3.2711	8,505	15,239	[4]15,701
1966	2,600	4,938	6,600	3.0859	8,023	15,239	20,367
1967	2,886	5,213	6,600	2.9231	8,436	15,239	19,292
1968	3,293	5,572	7,800	2.7351	9,007	15,239	21,334
1969	3,328	5,894	7,800	2.5857	8,605	15,239	20,168
1970	3,328	6,186	7,800	2.4634	8,198	15,239	19,215
1971	3,328	6,497	7,800	2.3456	7,806	15,239	18,295
1972	3,328	7,134	9,000	2.1362	[4]7,109	15,239	19,226
1973	3,328	7,580	10,800	2.0104	[4]6,691	15,239	21,712
1974	3,883	8,031	13,200	1.8976	7,368	15,239	25,048
1975	4,368	8,631	14,100	1.7657	7,712	15,239	24,896
1976	4,784	9,226	15,300	1.6517	7,902	15,239	25,271
1977	4,784	9,779	16,500	1.5583	7,455	15,239	25,712
1978	5,512	10,556	17,700	1.4437	7,957	15,239	25,553
1979	6,032	11,479	22,900	1.3275	8,008	15,239	30,400
1980	6,448	12,513	25,900	1.2178	7,853	15,239	31,542
1981	6,968	13,773	29,700	1.1064	7,710	15,239	32,862
1982	6,968	14,531	32,400	1.0487	7,307	15,239	33,978
1983	6,968	15,239	35,700	1.0000	[4]6,968	15,239	35,700
1984	6,968	[5]16,123	37,800	1.0000	[4]6,968	16,123	37,800

[1] Full-time worker at the Federal minimum wage.

[2] Full-time worker with earnings equal to the average in the economy.

[3] Worker earning the social security taxable maximum wage.

[4] Dropout years.

[5] Estimate based on Alternative II–B assumptions in 1984 Trustees' Report.

Average monthly wage (AMW)

The AMW, which is used in computing benefits under the old (coupled) benefit formula, is computed by: (1) determining the number of computations years—the number of years after 1950 (or the year of attainment of age 21, if later) and up to the year the worker attains age 62 (age 65 for men born before January 2, 1911) and the later of age 62 or the 1975 for men born after January 1, 1911, onset of disability or death, minus dropout years, generally 5 (minimum number of computation years is 2); (2) selecting the actual computation years, based on highest nonindexed earnings, for any year after 1950; and (3) dividing the sum of nonindexed earnings in the computation years by the total number of months in the computation years.

Primary insurance amount (PIA)

The PIA is the monthly benefit amount that would be payable to a retired worker who begins to receive benefits at his nomal retirement age and is the amount which is used as a base for computing all benefits which are payable on the basis of that worker's earnings record.

The method of determining the PIA depends on whether an AIME or an AMW was computed for the worker. (This, of course, is determined on the basis of the worker's date of birth.) If an AMW has been computed for the worker, the PIA is determined through reference to wage tables which are updated and published annually.

Under the transitional guarantee provision of the 1977 amendments (which is applicable only to workers who attain age 62 in 1979–83) if the PIA computed under the special guarantee is higher than under the AIME method, benefits are determined on the basis of the frozen 1978 benefit table.

In cases where an AIME has been computed, the PIA is determined by applying the "primary benefit formula" to the AIME. For a worker reaching age 62 in 1985, the PIA equals 90 percent of the first $280 of AIME, 32 percent of the next $1,411 of AIME, and 15 percent of the AIME above $1,691. Applying this formula to the AIME's of the three example workers results in PIA's of $379 for the minimum-wage worker, $569 for the average-wage worker, and $739 for the maximum-wage worker. The numbers $280 and $1,691 are often referred to as "bend points." These are adjusted each year by increase in average wages.

After the year of initial eligibility (age 62 for retired worker benefits), the PIA is increased each year for the increase in the Consumer Price Index (CPI). Thus, the PIA's of $379, $569 and $739 would have been for January through November 1985, and will be increased by the cost-of-living adjustment that will increase the December 1985 benefits (received in January 1986) under current law.

BENEFIT AMOUNTS

The PIA is the dollar amount that is payable to a worker who begins to receive benefits at that worker's normal retirement age. However, the actual benefit payable may be an amount different than the PIA.

Workers attaining age 62 before 2000 who retire before age 65 will receive a benefit with an actuarial reduction. Retirement after age 65 results in an actuarial increase in the benefit payable.

When the normal retirement age begins to increase in the year 2000, the minimum age of eligibility for reduced benefits will remain unchanged at age 62 (age 60 for widows and widowers). However, there will be corresponding increases in the amount of reduction for early retirement. The amount of reduction will be 5/9 of 1 percent for each of first 36 months of early retirement (as under present law), and 5/12 of 1 percent for each month in excess of 36. Thus, for persons attaining age 62 during 2005–16, for whom the normal retirement age will be 66, the reduced benefit payable at age 62 will be 75 percent of the PIA. For persons attaining age 62 in 2022 and later, for whom the normal retirement age will be 67, the reduced benefit payable at age 62 will be 70 percent of the PIA. (See table 6.) There will be no increase in the maximum reduction for widow(er)s.

Auxiliary benefit amounts are also based on the worker's PIA. Table 7 lists major types of benefit with the percent of the insured worker's PIA which is paid.

TABLE 6.—SCHEDULE OF BENEFITS, AS A PERCENTAGE OF PIA, PAYABLE AT SELECTED AGES, FOR PERSONS REACHING AGE 62 IN EACH YEAR 1986 AND LATER

Year of attainment of age 62	Benefit, as a percentage of PIA, beginning at age—		
	62	65	67
1986	80	100	106
1987	80	100	107
1988	80	100	107
1989	80	100	108
1990	80	100	108
1991	80	100	109
1992	80	100	109
1993	80	100	110
1994	80	100	110
1995	80	100	111
1996	80	100	111
1997	80	100	112
1998	80	100	112
1999	80	100	113
2000	79 1/6	98 8/9	111 11/12
2001	78 1/3	97 7/9	111 2/3
2002	77 1/2	96 2/3	110 1/2
2003	76 2/3	95 5/9	110
2004	75 5/6	94 4/9	108 3/4
2005–16	75	93 1/3	108
2017	74 1/6	92 2/9	106 2/3
2018	73 1/3	91 1/9	105 1/3
2019	72 1/2	90	104
2020	71 2/3	88 8/9	102 2/3
2021	70 5/6	87 7/9	101 1/2
2022 and later	70	86 2/3	100

TABLE 7.—PERCENTAGE OF PRIMARY INSURANCE AMOUNT (PIA) PAID FOR DEPENDENT'S AND SURVIVOR'S BENEFITS

Type of monthly benefit	Percent of PIA
Dependents: [1]	
Wives, husbands—age 65	[3] 50.0
Mothers, fathers, children, grandchildren	50.0
Survivors: [1]	
Widows, widowers—age 65 [2]	[3] 100.0
Dependent parent—age 62	82.5
Widows, widowers, disabled—age 50	71.5
Mothers fathers, children	75.0

[1] Subject to maximum family benefit limitation.

[2] Subject to general limitation that survivor cannot get a higher benefit than deceased worker would be getting if alive.

[3] These percentages decrease as the normal retirement age increases beginning in the year 2000.

BENEFIT REDUCTION AND INCREASE

Social Security benefits may be reduced, withheld or increased for several reasons, chiefly on account of early retirement, delayed retirement and, on account of earnings in excess of the exempt amount provided in the law ($7,320 in 1985 for beneficiaries between age 65 and 70). In addition, there is an overall limit on the total amount of benefits which can be paid at one time on the basis of any one earnings record.

Actuarial reduction. This is the reduction in monthly benefit amount payable: (a) on entitlement at ages 62–64 if the beneficiary is a retired worker, a spouse of a retired or disabled worker (with entitlement not dependent on having a child beneficiary in their care), or a divorced spouse; (b) on entitlement at age 60–64 if the beneficiary is a widow, widower, or a surviving divorced spouse; or (c) on entitlement, in case of disability, at ages 50–59 if the beneficiary is a widow, widower, or surviving divorced spouse.

At the time of award, the following reductions in benefit amount are made for:

A retired-worker beneficiary—$\frac{5}{9}$ of 1 percent for each month of entitlement before age 65 (maximum reduction of 20 percent);

A wife or husband beneficiary—$\frac{25}{36}$ of 1 percent for each month of entitlement before age 65 (maximum reduction of 25 percent);

A widow including surviving divorced spouse—$\frac{19}{40}$ of 1 percent for each month of entitlement between age 60 (maximum reduction of 28.5 percent). Disabled widow(er)s ages 50 to 59 receive 71.5 percent of the PIA.

The benefit continues to be paid at a reduced rate even after age 65, except that the reduced rate is refigured at age 65 for all beneficiaries and also at age 62 for a widow, widower, and a surviving divorced wife to omit months for which the reduced benefits was not paid and to take into account any additional earnings. Data on benefit awards to retired workers for 1977 indicates that 67 percent of all such awards were actuarially reduced benefits (62 percent for men, 74 percent for women).

Delayed retirement credit. A credit due a worker for delayed retirement after attaining age 65 for each month the worker: (1) was fully insured, (2) had attained age 65 but was not yet age 70, and (3) did not receive benefits because the worker had not filed an application or was working. Each monthly credit serves as a basis for increasing the monthly benefit (unless the benefit is based on a special minimum PIA) by 1/12 of 1 percent for workers who attained age 62 before 1979 and by 1/4 of 1 percent for workers attaining age 62 after 1978. The increase is applicable to the worker's monthly benefits amount but not to his PIA. Hence, auxiliary benefits are generally not affected. The exception is that a surviving spouse (including divorced) receiving widow(er)'s benefits is entitled, for months after May 1978 to the same increase that had been applied to the benefit of the deceased worker or for which the worker was eligible for at the time of death.

As a result of the Social Security Amendments of 1983, beginning with workers who attain age 65 in 1990, the increment for delaying retirement past the normal retirement age will increase by 1/2 of 1 percent every second year, from 3 percent per year of delayed retirement for workers attaining age 65 in 1982–89, until reaching 8 percent per year of delayed retirement for workers attaining normal retirement age (age 66) after 2008.

Maximum family benefit. The maximum monthly amount that can be paid on a worker's earnings record varies with his PIA. For benefits payable on the earnings records of retired and deceased workers, the maximum varies between 150 and 188 percent of the PIA. No more than the established maximum can be paid to a family regardless of the number of beneficiaries entitled on that earnings record. The family maximum is computed by adding fixed percentages of dollar amounts which are part of the PIA.

150 percent of the first $358 PIA, plus;
272 percent of PIA from $358 through $517, plus;
134 percent of PIA from $517 through $675, plus;
175 percent of PIA over $675.

The dollar amounts in this benefit formula (i.e. the "bend points") are adjusted annually by the same index used to update the bend points in the primary benefit formula.

Whenever the total of the individual monthly benefits payable to all the beneficiaries entitled on one earning record exceeds the maximum, each dependent's or survivor's benefit is proportionately reduced to bring the total within the maximum.

In computing the total of the individual monthly benefits for entitlements based on a single earnings record, a benefit payable to a divorced spouse or to a surviving divorced wife is not included.

Withholding. This is the suspension of benefit payments until the conditions causing deductions are known to have ended. Reasons for withholding benefits include: (1) earnings by a beneficiary (or any dependent drawing benefits on his earnings record) under age 70 from either covered or noncovered employment which exceeds the annual allowable amount (this is known as the "retirement test"); (2) failure of a wife under age 62 or mother or father beneficiary to have an entitled child in her care; (3) for special age-

72 beneficiaries, receipt of public assistance or supplemental security income (SSI) payments or offsetting government pensions; (4) the payee is not determined; and (5) administrative reasons.

Under the "retirement test" the maximum allowable annual earnings without benefits being withheld is $7,320 in 1985 for beneficiaries aged 65 and over ($5,400 for beneficiaries under age 65). This amount is known as the "exempt amount." Benefits are reduced by $1 in benefits for every $2 in annual earnings above the exempt amount. The exempt amount is indexed to rises in the average wage in the economy. Each year that an automatic benefit increase occurs, the exempt sum of earnings is adjusted for wage increases, effective January 1. If average wages in the economy fall in a particular year, the exempt amount would not be lowered. The law provides that it may not be reduced. According to the 1984 Social Security Trustee's Report, the annual "exempt amounts" for the next 4 calendar years are projected to be as follows:

	Under age 65	Age 65 through 69
1985	[1] 5,400	[1] 7,320
1986	[2] 5,760	[2] 7,560
1987	[2] 6,120	[2] 8,040
1988	[2] 6,480	[2] 8,400
1989	([2])	([2])

[1] Actual.

[2] Estimated.

Source: 1984 OASI Trustee's Report, Alternative II–B.

Beginning in 1990, the benefit withholding rate under the retirement test will be reduced from $1 for each $2 of earnings over the annual exempt amount to $1 for each $3 of excess earnings, for beneficiaries who have reached the normal retirement age (age 65 in 1990–99). When the normal retirement age begins to increase in 2000, the age at which the reduced withholding rate will apply will also increase.

As a result of a legislative change in the Deficit Reduction Act of 1984, the Social Security Administration has begun to request earlier reports of earnings from beneficiaries who are most likely to have earnings in excess of the exempt amount. These beneficiaries may thus have their benefits ceased in the actual year of excess earnings, rather than receiving overpayments which must then be recouped later.

Some of the administrative reasons for withholding benefits are: (a) refusal of beneficiary to accept checks for personal reasons; (b) beneficiary's residence in certain foreign countries; and (c) under certain conditions, an alien beneficiary's residence outside the United States for more than 6 full consecutive calendar months.

Suspension of monthly benefit payments does not affect eligibility for hospital insurance benefits.

AUTOMATIC BENEFIT ADJUSTMENTS

If the cost-of-living as measured by the Bureau of Labor Statistics' Consumer Price Index (CPI) rises by 3 percent or more since the last benefit increase, a benefit increase for social security and SSI recipients is triggered.

Prior to 1984, the change in the CPI was measured from the first calendar quarter of the base year to the first calendar quarter of the current year. However, the benefit increases in 1984 and later years will be based on the CPI increase from the third quarter of the base year through the third quarter of the year in which the benefit increase becomes effective. In addition, benefit increases beginning with the January 1985 check *may* be based upon a price index in which the housing component is measured on a rental equivalence basis. The January 1986 increase will be based upon a rental equivalence Consumer Price Index.

If it shows a 3 percent or more increase, a benefit increase of equivalent amount will be due for the month of December following the end of the measuring period. The CPI for the two calendar quarters used to measure the change represents the straight average of the CPI for each of the 3 months in both quarters.

However, if the assets of the combined OASI and DI trust funds are below a certain reserve ratio (15 percent for 1984 through 1988, and 20 thereafter) and wages increase at a rate lower than inflation, the automatic benefit increase will be based on wage growth rather than inflation. (See Appendix I for a more detailed discussion of this provision.)

The Secretary of Health and Human Services (HHS) is required by law to publish the amount of the increase in the Federal Register within 45 days after the close of the measuring period. The benefit increase is effective in December and first appears in January benefit checks, i.e., 3 months after the close of the measuring period. (Prior to 1983 the benefit adjustment was effective in June and payable in July.)

Since a benefit increase was effective in 1983, that year became the base for the 1984 benefit increases. The CPI for the third quarter of 1983 was 299.5. This was the arithmetical average of the CPI for July, August and September, 1983.

Month in 1983:	CPI
July	298.2
August	299.5
September	300.8
Total	898.5

The average CPI for the 3rd quarter of 1983 is thus:

$$898.5/3=299.5$$

2. The CPI for the third quarter of 1984 was 310.0. This was the arithmetical average of the CPI for July, August and September, 1984.

Month in 1984:	
July	307.5
August	310.3
September	312.1
Total	929.9

The average CPI for the 3rd quarter of 1984 is thus:

$$929.9/3=310.0$$

3. The percentage increase in the CPI from the third quarter of 1983 to the third quarter of 1984 is:

$$(310.0-299.5)/299.5=3.5 \text{ percent}$$

The benefit increase is rounded to the nearest 0.1 percent. It applies to all types of beneficiaries (except postsecondary students, whose benefits are being phased out).

TAXATION OF SOCIAL SECURITY (OASDI) BENEFITS FOR HIGHER-INCOME PERSONS

Beginning in 1984, as much as one-half of OASDI benefits (and railroad retirement tier 1 benefits) are included in taxable income for taxpayers with incomes above certain base amounts. The sum of a taxpayer's (1) adjusted gross income, (2) tax-free interest income and (3) one-half of OASDI benefits is compared to a base amount of $25,000 for a single taxpayer, or $32,000 for a married couple filing a joint tax return. If the sum exceeds the base amount, the amount of benefits to be included in taxable income is the lesser of:

(a) one-half of the excess of such sum over the base amount, or

(b) one-half of the amount of benefits received.

The revenue raised by this taxation of benefits is automatically transferred to the OASDI Trusts Funds.

The following table contains several examples which illustrate the taxation of Social Security benefits.

EXAMPLES

		A	B	C	D	E
(1)	Type of taxpayer	Single	Single	Couple	Couple	Couple
(2)	Adjusted gross income	16,000	23,000	24,000	28,000	50,000
(3)	Tax-free interest income	0	0	0	3,000	2,000
(4)	Social Security	$4,000	$8,000	$3,000	$6,000	$10,000
(5)	Sum of lines (2) plus (3) plus one-half of (4).	18,000	27,000	25,500	34,000	57,000
(6)	Base amount	25,000	25,000	32,000	32,000	32,000
(7)	Excess amount (line (5) minus (6)).	−7,000	2,000	−6,500	2,000	25,000

EXAMPLES—Continued

	A	B	C	D	E
(8) Amount of Social Security which is taxed. If line (7) is positive, lesser of one-half of lines (7) or (2). If line (7) is zero or negative, enter 0.	0	1,000	0	1,000	5,000

Legislative Changes Made in the 97th Congress

The 97th Congress made numerous changes in the old-age and survivors insurance program. The major changes were included in the Omnibus Budget Reconciliation Act (Public Law 97-35). Table 8 lists these changes and contains the most recent Congressional Budget Office estimates of their budgetary impact.

TABLE 8.—CONGRESSIONAL BUDGET OFFICE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASI DURING CALENDAR YEAR 1981 (JANUARY 1982 ESTIMATES)

[In millions of dollars]

	Fiscal year—		
	1982	1983	1984
Elimination of minimum benefit for future beneficiaries	−81	−180	−210
Elimination of benefits for postsecondary students	−567	−1,580	−2,033
Restrictions on payment of lump-sum death benefits	−200	−210	−215
Modification of month of initial entitlement for certain workers and their dependents	−190	−220	−240
Temporary extension of earnings limitation to include all persons aged less than 72	−380	−120	0
Termination of mother's and father's benefits when youngest child attains age 16	−30	−88	−496
Modification of rounding rules	−79	−272	−314
Cost reimbursement for provision of earnings information	−1	−2	−5
Revision of reimbursements for vocational rehabilitation services	−87	−86	−73
Modify workmen's compensation offset to: (1) Apply offset to certain other public disability benefits-megacap; (2) apply offset to benefits of workers aged 62 to 64; and (3) begin offset in first month of dual benefit payment	−87	−122	−156
Extension of coverage to first 6 months of sick pay (revenue increase)	−534	−762	−828
Total OASI	−2,236	−3,642	−4,570

Legislative Changes Made in the 98th Congress

The 98th Congress made extensive changes in the old-age and survivors insurance program in the Social Security Amendments of 1983 (Public Law 98-21), enacted to restore the financial status of the Social Security trust funds. Table 9 lists the major changes made in those amendments and contains the Congressional Budget Office estimates made in January 1984 of their budgetary impact. The provision which taxes benefits is shown under outlays in table 9. This provision increases revenues, but for purposes of this table is listed under "outlays" to illustrate the impact upon beneficiaries. In keeping with that convention, the provision is not listed under "revenues". As part of the Social Security Amendments, SSI benefits were increased. See Section 11 for an estimate of that impact. One minor provision was enacted during 1984 concerning the administration of the earnings test. See Appendix I.

TABLE 9.—CONGRESSIONAL BUDGET OFFICE OUTLAY AND TREASURY DEPARTMENT REVENUE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASI DURING CALENDAR YEAR 1983 [1]

[— (minus) means decrease in outlays; in millions of dollars]

Provision	Fiscal year					
	1983	1984	1985	1986	1987	1988
	Outlays (beneficiary impact)					
Delay benefit increases 6 months:						
OASDI	−1,446	−3,218	−3,395	−4,192	−4,468	−4,841
SSI	−85	−115	−140	−165	−165	−205
Veterans' pension	−21	−52	−56	−68	−72	−76
Food stamp offset	0	32	37	48	51	56
Total	−1,552	−3,353	−3,554	−4,377	−4,654	−5,066
Continue benefits on remarriage	0	14	22	23	24	26
Modify indexing of deferred survivors' benefits	0	0	0	0	1	3
Raise disabled widow(er)'s benefits to 71.5 percent of PIA	0	90	125	130	135	140
Pay divorced spouses whether or not worker has retired	0	0	6	11	12	12

TABLE 9.—CONGRESSIONAL BUDGET OFFICE OUTLAY AND TREASURY DEPARTMENT REVENUE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASI DURING CALENDAR YEAR 1983 [1]—Continued

[— (minus) means decrease in outlays; in millions of dollars]

Provision	Fiscal year					
	1983	1984	1985	1986	1987	1988
Replace 90 percent factor for individuals receiving pensions from noncovered employment	0	0	0	−2	−5	−20
Offset spouses benefits by up to ⅔ of noncovered Government pension	0	1	2	4	6	9
Tax one-half of benefits for high income beneficiaries [1]	0	−894	−3,167	−3,769	−4,495	−5,350
Miscellaneous and technical changes	2	10	−26	−11	−13	−31
Total	−1,550	−4,132	−6,592	−7,991	−8,989	−10,277
Revenues (taxpayer impact)						
Prohibit State and local withdrawal		87	311	564	818	1,107
Include all nonprofit institutions		1,435	2,398	2,896	3,366	3,920
Include new Federal employees	64		181	346	556	765
Accelerate 1985 FICA/RRTA tax rate increased to 1984:						
Increase in rate		6,542	2,402			
Employee tax credit		−3,311	−1,213			
Total		3,231	1,189			
Increase FICA/RRTA tax rate to 6.06 percent on Jan. 1, 1988						10,963
Reduced income tax receipts due to increased employer taxes		−1,027	−418	−355	−413	−1,855
Increase SECA tax rate:						
Rate increase		1,427	4,257	4,237	4,555	5,068

TABLE 9.—CONGRESSIONAL BUDGET OFFICE OUTLAY AND TREASURY DEPARTMENT REVENUE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASI DURING CALENDAR YEAR 1983 [1]—Continued

[— (minus) means decrease in outlays; in millions of dollars]

Provision	Fiscal year					
	1983	1984	1985	1986	1987	1988
Tax credit		−829	−2,427	−2,198	−2,120	−2,232
Total		598	1,830	2,039	2,435	2,836
State and local government deposit schedule		747	54	56	62	67
Total		5,135	5,545	5,546	6,824	17,803

January 1984 estimates.

CHARACTERISTICS OF BENEFICIARY POPULATION

Tables 10 through 11 provide detailed information on the numbers of various OASI beneficiaries, the average amount of monthly benefits by type of beneficiary for new awards and for all beneficiaries currently receiving payments More detailed information is shown in table 11 for December 1983.

TABLE 10.—OASI CASH BENEFITS: AVERAGE AMOUNT OF MONTHLY BENEFITS BY TYPE AND NUMBER OF BENEFICIARIES, CURRENT PAYMENT STATUS, DECEMBER 1984, AND NEW AWARDS, 1984

	Current payment		New awards	
	Number (in thousands)	Average payment	Number (in thousands)	Average payment
Retired workers	21,907	$460.57	1,612	$429.26
Wives and husbands of retired workers	3,051	236.38	343	214.90
Children of retired workers	478	185.86	133	191.28
Surviving children	2,009	314.27	348	305.32
Widowed mothers and fathers	382	321.53	74	303.72
Widows and widowers	4,672	415.32	483	414.97
Parents	10	363.93	0.4	359.19

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1983

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Retired workers:				
Men:				
62 to 64	1,200	3.3	$424.60	3.6
65 to 69	3,525	9.8	532.00	13.2
70 to 79	4,871	13.5	503.00	17.3
80 to 89	1,562	4.3	452.20	5.0
90 and over	201	.6	403.40	.6
Total, retired men	11,358	31.5	495.00	39.7
Women:				
62 to 64	1,116	3.1	280.70	2.2
65 to 69	2,815	7.8	380.90	7.6
70 to 79	4,179	11.6	405.80	12.0
80 to 89	1,682	4.7	386.20	4.6
90 and over	268	.7	327.40	.6
Total, retired women	10,060	27.9	379.60	26.9
Total, retired workers	21,419	59.4	440.80	66.6
Disabled workers:				
Men:				
Under 50	500	1.4	484.90	1.7
50 to 59	624	1.7	499.70	2.2
60 to 61	222	.6	514.20	.8
62 to 64	384	1.1	520.00	1.4
Total, disabled men	1,731	4.8	502.70	6.1
Women:				
Under 50	218	.6	388.70	.6
50 to 59	311	.9	343.60	.8
60 to 61	113	.3	352.40	.3
62 to 64	195	.5	359.40	.5
Total, disabled women	838	2.3	360.20	2.1
Total, disabled workers	2,569	7.1	456.20	8.3
Wives of retired workers:				
With entitled children:				
Under 35	5	(1)	115.80	(1)
35 to 44	22	.1	125.50	(1)
45 to 54	42	.1	143.10	(1)
55 to 64	47	.1	174.80	.1
Total, with entitled children	116	.3	151.30	.1
Without entitled children: 62 and over	2,886	8.0	229.50	4.7
Total, wives of retired workers	3,002	8.3	226.50	4.8

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1983—Continued

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Husbands of retired workers:				
62 to 74	20	.1	$156.30	(1)
75 and over	17	(1)	166.40	(1)
Total, husbands	37	.1	160.90	(1)
Total spouses of retired workers	3,039	8.4	225.70	4.8
Wives of disabled workers:				
With entitled children:				
Under 35	56	.2	105.20	(1)
35 to 44	91	.3	118.40	.1
45 to 54	64	.2	133.50	.1
55 to 64	17	(1)	152.40	(1)
Total, with entitled children	228	.6	121.90	.2
Witnout entitled children: 62 and over	79	.2	150.70	.1
Total, wives of disabled workers	306	.8	129.30	.3
Husbands of disabled workers	2	(1)	101.50	(1)
Total spouses of disabled workers	308	.9	129.20	.3
Children:				
Children of retired workers:				
0 to 6	20	.1	122.70	(1)
7 to 10	37	.1	128.40	(1)
11 to 17	253	.7	171.50	.3
18 to 21 (students)	53	.1	153.50	.1
Disabled children 18 and over	148	.4	210.10	.2
Total, children of retired workers	512	1.4	175.80	.6
Children of deceased workers:				
0 to 6	157	.4	278.90	.3
7 to 10	270	.7	303.10	.6
11 to 17	1,219	3.4	311.70	2.7
18 to 21 (students)	190	.5	233.40	.3
Disabled children 18 and over	310	.9	289.00	.6
Total, children of deceased workers	2,146	5.9	298.00	4.5
Children of disabled workers:				
0 to 6	124	.3	$110.50	.1
7 to 10	157	.4	119.60	.1
11 to 17	574	1.6	142.70	.6
18 to 21 (student)	50	.1	144.00	.1
Disabled children 18 and over	30	.1	172.00	(1)

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1983—Continued

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Total, children of disabled workers	936	2.6	135.50	.9
Total, children	3,593	10.0	238.30	6.0
Widowed mothers and fathers:				
Under 30	45	.1	309.50	.1
30 to 39	138	.4	304.20	.3
40 to 49	129	.4	306.90	.3
50 to 59	72	.2	316.10	.2
60 to 61	7	(1)	320.00	(1)
62 and over	9	(1)	329.00	(1)
Total, widowed mothers and fathers	400	1.1	308.70	.9
Widows (nondisabled):				
60, 61	184	.5	371.70	.5
62 to 64	444	1.2	382.60	1.2
65 to 69	796	2.2	398.40	2.2
70 to 79	1,699	4.7	407.90	4.9
80 to 89	1,181	3.3	398.00	5.3
90 and over	251	.7	360.60	.6
Total, widows	4,554	12.6	397.10	12.8
Widowers (nondisabled):				
62 to 64	12	(1)	295.40	(1)
65 to 69	4	(1)	307.30	(1)
70 to 74	3	(1)	300.80	(1)
75 to 79	3	(1)	296.80	(1)
80 to 84	3	(1)	287.60	(1)
85 and over	3	(1)	280.00	(1)
Total, widowers	28	.1	295.70	.1
Disabled widows and widowers:				
50 to 54	9	(1)	221.30	(1)
55 to 59	37	.1	243.00	.1
60	12	(1)	255.60	(1)
61	12	(1)	255.30	(1)
62 and over	41	.1	260.50	.1
Total, disabled widows and widowers	112	.3	250.30	.2
Disabled widows	111	.3	251.10	.2
Disabled widowers	1	(1)	166.20	(1)
Parents: Total	11	(1)	349.80	(1)
Special age 72 beneficiaries (primary):				
Men	5	(1)	129.50	(1)
Women	46	.1	129.60	(1)

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1983—Continued

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Total, age 72 beneficiaries	51	.1	129.50	(1)
Wives of special age 72 beneficiaries	(2)	(1)	113.00	(1)
Total	36,085	100.0	392.80	100.0

[1] Less than 0.1 percent.

[2] Less than 500 beneficiaries.

Note.—Columns may not add due to rounding.

Source: Office of Research, Statistics, and International Policy; Social Security Administration.

The previous three tables have shown the number and average benefit classified by type of beneficiary. Many individuals receive benefits on their own record plus other benefits based upon earnings of their spouse or former spouse. Table 12 separates, by type of female beneficiary, the amount of benefits received on her own earnings record versus someone else's. For example, 9.2 million female beneficiaries over age 65 are insured and receive an average benefit of $409.61 or total benefits of $3,761 million. Of this, approximately 89 percent is earned on the basis of their own earnings while the remaining 11 percent is received as a dependent spouse. Some 6.5 million female beneficiaries over age 65 who are not insured receive an average benefit of $350.44. These benefits were all earned by a spouse or former spouse. Most of these benefits represent a survivor benefit. Table 13 presents similar information for male beneficiaries.

TABLE 12.—OASDI MONTHLY BENEFITS RECEIVED BY FEMALES IN DECEMBER 1984 [1]

[Numbers in thousands; amounts in millions]

	Total OASDI benefit	Old-age benefit based on own earnings record	Disability benefit based on own earnings record	Retirement benefit received as dependent spouse	Survivor benefit received as dependent spouse	Disability benefit received as dependent spouse	Benefit received as mother parent, or special primary	Percent of total female benefits
Age 65 and over (insured):								
Number	9,182	9,182	...	[2] 1,078	[2] 1,979	...	[2] 3	...
Total benefits	$3,761	$3,261	...	$97	$402	...	$1	51.8
Average	$409.61	$355.20	...	$90.06	$203.15	...	$194.39	...
Age 65 and over (not insured):								
Number	6,501	...	...	2,425	3,998	31	47	...
Total benefits	$2,278	...	...	$589	$1,675	$5	$9	31.4
Average	$350.44	...	...	$243.08	$419.05	$153.11	$184.24	...
Age 62–64 (insured):								
Number	1,345	1,152	193	[2] 337	[2] 34	...	([3])	...
Total benefits	$408	$293	$71	$34	$10	...	([4])	5.6
Average	$303.32	$254.48	$369.66	$100.24	$286.27	...	$354.85	...
Age 62–64 (not insured):								
Number	1,036	...	...	490	492	46	9	...
Total benefits	$315	...	...	$111	$194	$7	$3	4.3
Average	$304.01	...	...	$225.80	$394.24	$162.58	$348.37	...
Age less than 62:								
Number	1,592	...	656	100	259	222	356	...
Total benefits	$497	...	$244	$15	$95	$27	$117	6.8
Average	$312.27	...	$371.61	$151.35	$365.78	$122.23	$327.49	...
Total number	19,656	10,334	849	3,014	4,749	299	411	...

TABLE 12.—OASDI MONTHLY BENEFITS RECEIVED BY FEMALES IN DECEMBER 1984 [1]—Continued

[Numbers in thousands; amounts in millions]

	Total OASDI benefit	Old-age benefit based on own earnings record	Disability benefit based on own earnings record	Retirement benefit received as dependent spouse	Survivor benefit received as dependent spouse	Disability benefit received as dependent spouse	Benefit received as mother parent, or special primary	Percent of total female benefits
Total benefits	$7,259	$3,554	$315	$846	$2,376	$39	$129	100.0
Average	$369.32	$343.97	$371.17	$280.67	$500.25	$131.68	$313.04	...
Percent of total female benefits	100.0	49.0	4.3	11.7	32.7	0.5	1.8	...

[1] Table does not include female child beneficiaries. [2] Dually entitled. [3] Less than 500. [4] Less than $500,000.

TABLE 13.—OASDI MONTHLY BENEFITS RECEIVED BY MALES IN DECEMBER 1984 [1]

[Numbers in thousands; amounts in millions]

	Total OASDI benefit	Old-age benefit based on own earnings record	Disability based on own earnings record	Retirement benefit received as dependent spouse	Survivor benefit received as dependent spouse	Disability benefit received as dependent spouse	Benefit received as father, parent, or special primary	Percentage of total male benefit
Age 65 and over (insured):								
Number	10,317	10,317	...	(2)	(2)	...	(2)	...
Total benefits	$5,433	$5,433	...	(2)	(2)	...	(2)	78.5
Average	$526.63	$526.63	...	...	...	...	...	...
Age 65 and over (not insured):								
Number	58	...	...	35	17	1	4	...

Total benefits	$12			$6	$5	(4)	$1	0.2
Average	$205.89			$166.95	$308.08	$110.22	$157.11	
Age 62–64 (insured):								
Number	1,635	1,256	379					
Total benefits	$764	$558	$206					11.0
Average	$467.54	$444.79	$542.83					
Age 62–64 (not insured):								
Number	10			1	8	(3)	(3)	
Total benefits	$3			(4)	$3	(4)	(4)	(5)
Average	$295.66			$123.74	$328.81	$75.84	$241.89	
Age less than 62:								
Number	1,394		1,368	(3)	5	3	17	
Total benefits	$706		$701	(4)	$1	(4)	$3	10.2
Average	$506.32		$512.40	$82.07	$244.26	$75.00	$186.62	
Total number	13,414	11,573	1,748	37	30	5	22	
Total benefits	$6,918	$5,992	$907	$6	$9	(4)	4	100.0
Average	$515.77	$517.75	$519.01	$165.44	$302.56	$83.69	$181.09	
Percent of total male benefits	100.0	86.6	13.1	0.1	0.1	(5)	0.1	

---

[1] Table does not include male child beneficiaries.
[2] Assumes all dually entitled beneficiaries are female.
[3] Less than 500.
[4] Less than $500,000.
[5] Less than 0.05 percent.

REPORTS AND STUDIES

The following are legislatively mandated studies and reports.

Topic	Date due
Secretary of Health and Human Services, in consultation with the Senate Committee on Finance, the Committee on Ways and Means and the Director of the Congressional Budget Office shall report to such committees on proposals for earnings sharing legislation. (Sec. 343, Public Law 98–21; H.R. 1900.)	July 1, 1984.
The Director of the Congressional Budget Office shall report to the Committee on Ways and Means and the Senate Committee on Finance on the methodologies, recommendations and analyses used in the report of the Secretary of Health and Human Services on earnings sharing legislation. (Sec. 343(d), Public Law 98–21; H.R. 1900.)	July 31, 1984.
Secretary of Health and Human Services to report to Congress on the effects of the provisions included in the first three titles of H.R. 3236, addressing such questions as the work incentive effects or relevant provisions, administrative problems involved in the implementation and operation of the provisions, and cost and caseload impact with respect to both the DI and SSI programs. (Sec. 312, Public Law 96–265; H.R. 3236.)	Jan. 1, 1985.
Secretary of Health and Human Services shall report to the Congress on the implications of social security retirement age changes in the case of those individuals (affected by such changes) who, because they are engaged in physically demanding employment or because they are unable to extend their working careers for health reasons, may not benefit from improvements in longevity. (Sec. 201(d), Public Law 98–21; H.R. 1900.)	Jan. 1, 1986.
Board of Trustees to make a timely report to Congress of any amount (including interest) under the interfund borrowing authority that will expire Dec. 31, 1982. (Sec. 1, Public Law 97–123; H.R. 4331.)	No date certain.
Secretary of Health and Human Services shall conduct a study and report to the Congress on the additional benefits selected by eligible organizations pursuant to sec. 1876(g)(2) of the Social Security Act. (Sec. 114(d), Public Law 97–248; H.R. 4961.)	24 months after implementation.

TABLE 14.—1985 SUMMARY SOCIAL SECURITY INFORMATION

Tax rate:	
Employee and employer each	7.05 percent (5.70 percent—OASDI, 1.35 percent—HI).
Self-employed	14.10 percent (11.40 percent—OASDI, 2.70 percent—HI).
Wage Base	$39,600.
Quarter of Coverage	$410 equals 1 QC (minimum of $400 net earnings from self-employment needed to earn QC's based on self-employment income).
Retirement Test Exempt Earnings Limits:	
Age 65 and over	$7,320 annual, $610.00 monthly.
Under age 65	$5,400 annual, $450.00 monthly.

Bend Points:

PIA	Maximum Family Benefit
90 percent of first $280 of AIME, plus 32 percent of AIME over $280 thru $1,691, plus 15 percent of AIME over $1,691.	150 percent of first $358 of PIA, plus 272 percent of PIA over $358 thru $517, plus 134 percent of PIA over $517 thru $675, plus 175 percent of PIA over $675.

Benefit Examples:

Retired Worker Age 65 in 1985—January 1985 PIA	Long-Range Constant Replacement Rate Under Decoupled System
Fed. minimum wage earner, $369.50	Fed. minimum wage earner, 56 percent.
Average earner, $548.40	Average earner, 41 percent.
Maximum earner, $712.20	Maximum earner, 27 percent.

Average Earnings Level: 1983—$15,239, 1984 est—$16,123 [1]
Federal Minimum Wage Level: [2] 1983—$6,968, 1984—$6,968.

Poverty level	1982 (actual)	1983 (actual)	1984 (estimated)
Aged individual	$4,626	$4,775	$4,980
Couple, aged head	5,836	6,023	6,280
Family of four	9,862	10,178	10,610

[1] 1984 Trustees' Report—alternative II–B assumptions (revised).

[2] 2,080 hours times the hourly Federal minimum wage.

Source: Office of Legislative and Regulatory Policy, Social Security Administration.

TABLE 15.—EXAMPLES OF 1985 MONTHLY CASH BENEFIT AWARDS FOR SELECTED BENEFICIARY FAMILIES WITH FIRST ELIGIBILITY IN 1984, BY AVERAGE INDEXED MONTHLY EARNINGS

Beneficiary family	Average indexed monthly earnings of insured worker										
	$100	$267	$600	$1,000	$1,300	$1,612	$1,900	$2,200	$2,587	$2,837	$3,062
Primary insurance amount	$93.10	$248.70	$358.90	$491.40	$590.70	$694.10	$738.80	$785.40	$832.00	$884.30	$919.20
Maximum family benefit	139.70	373.00	544.40	904.70	1,063.80	1,214.10	1,292.40	1,373.90	1,455.40	1,546.90	1,608.10
Disability maximum family benefit [1]	93.10	248.70	527.80	737.10	886.10	1,041.20	1,108.20	1,178.10	1,248.00	1,326.40	...
Disabled worker:											
Worker alone	93.00	248.00	358.00	491.00	590.00	694.00	738.00	785.00	832.00	884.00	...
Worker, spouse, and 1 child	93.00	248.00	526.00	735.00	884.00	1,040.00	1,106.00	1,177.00	1,248.00	1,326.00	...
Retired worker claiming benefits at age 62:[2]											
Worker alone	74.00	198.00	287.00	393.00	472.00	555.00	...	...	...	...	...
Worker with spouse claiming benefits at:											
Age 65 or older	120.00	322.00	466.00	638.00	767.00	902.00	...	...	...	...	...
Age 62 [2]	108.00	291.00	421.00	577.00	693.00	815.00	...	...	...	...	...
Widow or widower claiming benefits at:											
Age 65 or older [3]	93.00	248.00	358.00	491.00	590.00	694.00	738.00	785.00	832.00	884.00	919.00
Age 60 (or age 50 if disabled)	66.00	177.00	256.00	351.00	422.00	496.00	528.00	561.00	594.00	632.00	657.00
1 surviving child	69.00	186.00	269.00	368.00	443.00	520.00	554.00	589.00	624.00	663.00	689.00
Widow or widower aged 65 or older and 1 child	138.00	372.00	544.00	859.00	1,033.00	1,214.00	1,292.00	1,373.00	1,454.00	1,545.00	1,608.00
Widowed mother or father and 1 child	138.00	372.00	538.00	736.00	886.00	1,040.00	1,108.00	1,178.00	1,248.00	1,326.00	1,378.00

Widowed mother or father and 2 children	138.00	372.00	543.00	903.00	1,062.00	1,212.00	1,290.00	1,371.00	1,455.00	1,545.00	1,608.00

---

[1] The 1980 Amendments to the Social Security Act provide for different family maximum amounts for disability cases. For disabled workers entitled after June 1980, the maximum is the smaller of (1) 85 percent of the worker's AIME (or 100 percent of the PIA, if larger), or (2) 150 percent of the PIA.

[2] Assumes maximum reduction.

[3] A widow(er)'s benefit amount is limited to the amount the spouse would have been receiving if still living but not less than 82½ percent of the PIA.

APPENDIX A. STATISTICAL HISTORY AND FUTURE BENEFIT PROJECTIONS OF THE SOCIAL SECURITY PROGRAMS

The Social Security Act of 1935 was signed into law on August 14, 1935. The immediate origin of this legislation was the Committee on Economic Security which had been charged by President Roosevelt with the task of devising safeguards "against misfortune which cannot be wholly eliminated in the man-made world of ours."

In addition to the Federal old-age retirement program (title II), the original Social Security Act also included grants-in-aid to States for: old-age pensions based on need (title I); unemployment compensation systems (title III); aid to dependent children (title IV); maternal and child welfare services, the care of crippled children and vocational rehabilitation (title VI).

The original act has been amended on numerous occasions since 1935. However, the most significant changes to title II were made by the Social Security Amendments of 1939, 1950, 1954, 1956, 1965, 1972, 1977, and 1983. In addition, the medicare title XVIII program was added to the Social Security Act in 1965.

Today the term "social security" is seldom used to refer to all of the programs included in the Social Security Act. The term is most often used to refer to either solely title II, the old-age and survivor program insurance program and, since 1956, the disability insurance program, or to both title II and to title XVIII, the medicare program. This appendix presents historical data concerning the coverage, benefits and financing of each of the three programs.

COVERAGE

The original Social Security Act provided coverage on a mandatory basis under the old-age insurance program of all employees in commerce and industry (except railroad) under age 65. Specifically excluded from coverage "due to difficulties in collecting the tax" were the following services: agricultural labor; domestic services in a private home; casual labor not in the course of the employer's trade or business; and services performed by an officer or member of a crew on a documented vessel. Also specifically excluded were services performed in the employ of: the United States Government, a state or any political subdivision of a state; and non-profit (including religious) organizations.

Coverage has been extended both on a mandatory and a voluntary basis. Mandatory coverage was extended to workers age 65 and over not otherwise excluded in 1939. In 1950 non-farm self-employed, regularly employed farm and domestic workers, and Federal civilian employees not under a retirement system were covered on a mandatory basis. In addition, the 1950 amendments provided elective coverage to State and local government employees not under a retirement system and employees of nonprofit organizations.

The most significant extensions of coverage provided by the 1954 amendments were to self-employed farmers on a mandatory basis and, on an elective basis, State and local government employees (except firemen and policemen) under retirement systems and ministers. Coverage was extended to members of the uniformed services in 1956, and to ministers and members of religious orders who do not choose to be exempt on religious grounds. In 1983, coverage was extended on a compulsory basis to the following major groups: Federal employees hired after January 1, 1984; current and future Members of Congress; the President and Vice President; Federal judges; and all employees of nonprofit organizations.

The following two tables detail the extension of coverage under the social security program in terms of both jobs and wages:

TABLE 1.—CIVILIAN JOBS COVERED BY SOCIAL SECURITY SYSTEM, 1939–82

[In millions]

Year	Paid civilian employees [1]	OASDHI coverage	Percent covered
1939 [2]	43.6	24.0	55.1
1944 [2]	51.2	30.8	60.2
1949 [2]	56.7	34.3	60.5
1954 [2]	59.5	45.3	76.1
1955	62.8	51.8	82.5
1956	63.2	53.2	84.2
1957	63.1	53.7	85.1
1958	62.7	53.4	85.2
1959	64.4	55.4	86.0
1960	64.6	55.7	86.2
1961	65.3	56.1	85.9
1962	66.4	57.3	86.3
1963	67.6	58.5	86.5
1964	69.3	60.1	86.7
1965	71.6	62.7	87.6
1966	73.6	64.9	88.2
1967	74.4	65.7	88.3
1968	75.9	67.1	88.4
1969	78.0	68.6	87.9
1970	77.6	69.2	89.2
1971	79.3	69.8	88.0
1972	82.1	72.6	88.4
1973	84.9	75.6	89.0
1974	84.5	75.2	89.0
1975	84.8	75.7	89.3
1976	87.8	80.3	91.5
1977	92.0	82.1	89.2
1978	95.2	83.2	87.4
1979	97.5	87.6	89.8
1980	97.0	86.5	89.2
1981	96.9	86.6	89.4
1982	98.4	87.9	89.3

---

[1] Includes paid employees and self-employed for all years.

[2] Monthly average for these years; all other years as of December.

Source: Social Security Statistical Supplement, 1982, table 4, and Office of Research, Statistics, and International Policy.

TABLE 2.—CIVILIAN WAGES COVERED BY SOCIAL SECURITY SYSTEM, 1946–84 [1]

[Dollars in billions]

Year	Total earnings	Earnings in covered employment		Total covered earnings	Percent of total earnings covered	Taxable earnings	Percent of covered earnings
		Employed	Self-employed				
1946	$148.7	$79.0		$79.0	53.1	$69.1	87.1
1947	159.0	92.1		92.1	57.9	78.4	84.8
1948	176.4	101.9		101.9	57.8	84.1	82.2
1949	171.1	99.6		99.6	58.2	81.8	81.8
1950	185.7	109.4		109.4	58.9	87.5	79.7
1951	214.5	131.2	$16.3	147.5	68.8	120.8	81.1
1952	228.7	141.8	16.3	158.1	69.1	128.6	80.5
1953	240.4	154.0	16.9	170.9	71.1	135.9	78.5
1954	238.0	153.2	16.7	169.9	71.4	133.5	77.7
1955	254.5	169.4	24.4	193.8	76.1	157.5	80.3
1956	272.3	186.2	28.1	214.3	78.7	170.7	78.8
1957	284.5	203.1	28.2	231.3	81.3	181.4	77.5
1958	288.9	205.6	28.3	233.9	81.2	180.7	76.4
1959	306.5	222.5	29.7	252.2	82.3	202.3	79.3
1960	319.1	234.3	29.1	263.4	82.5	207.0	78.1
1961	328.0	238.8	29.9	268.7	81.9	209.6	77.4
1962	357.9	255.7	31.3	287.0	80.2	219.1	75.8
1963	363.9	268.2	31.6	299.8	82.4	225.6	74.6
1964	388.6	288.4	33.5	321.9	82.8	236.4	72.8
1965	418.9	308.6	40.2	348.8	83.2	250.7	71.3
1966	458.9	344.2	43.9	388.1	84.6	312.5	80.0
1967	488.2	374.7	44.7	419.4	85.9	330.0	78.1
1968	533.6	410.5	46.3	456.8	85.6	375.8	81.7
1969	582.7	452.5	46.9	499.4	85.3	402.6	80.1
1970	614.9	480.0	47.9	527.9	85.8	415.6	78.2
1971	650.3	505.2	50.6	555.8	85.5	427.0	76.3
1972	712.1	559.1	54.5	613.6	86.2	484.1	78.3
1973	796.4	619.8	62.8	682.6	85.7	561.9	81.8
1974	854.5	678.1	65.6	743.7	87.0	636.8	85.3
1975	896.4	717.2	70.4	787.6	87.3	664.7	84.4
1976	984.0	797.2	76.8	874.0	88.8	737.7	84.4
1977	1,087.0	883.1	80.7	963.8	88.7	817.3	85.1
1978	1,224.8	1,002.2	93.7	1,095.9	89.5	915.8	84.3
1979	1,369.7	1,125.0	100.2	1,225.1	89.5	1,070.6	88.3
1980 [2]	1,474.1	1,230.5	97.3	1,327.8	90.1	1,174.2	89.2
1981 [2]	1,618.3	1,348.2	94.6	1,442.8	89.2	1,300.1	90.0
1982 [2]	1,679.8	1,418.5	93.8	1,512.3	90.0	1,354.0	90.3

TABLE 2.—CIVILIAN WAGES COVERED BY SOCIAL SECURITY SYSTEM, 1946–84 [1]—Continued

[Dollars in billions]

Year	Total earnings	Earnings in covered employment		Total covered earnings	Percent of total earnings covered	Taxable earnings	Percent of covered earnings
		Employed	Self-employed				
1983 [2]	1,780.5	1,488.3	105.2	1,593.5	89.5	1,453.0	91.0
1984 [2]	NA	1,642.5	117.7	1,760.2	NA		

---

[1] Sum of wages and salaries and proprietors' income with inventory valuation and capital consumption adjustments, as estimated by the Bureau of Economic Analysis in the National Income and Product Accounts.

[2] Preliminary.

Source: Social Security Statistical Supplement, 1983, and Office of Research, Statistics, and International Policy, SSA.

TABLE 3.—NUMBER OF WORKERS AND AVERAGE EARNINGS, SELECTED YEARS

Year	Workers with taxable earnings [1]	With maximum earnings	Average earnings per worker	
			Total earnings [2]	Reported taxable [2]
1937	32,900	1,031	$979	$900
1938	31,820	933	896	833
1939	33,750	1,055	954	881
1940	35,390	1,196	1,009	932
1941	40,980	1,866	1,110	1,021
1942	46,360	3,569	1,255	1,142
1943	47,660	5,942	1,462	1,310
1944	46,300	7,163	1,583	1,392
1945	46,390	6,361	1,543	1,357
1946	48,840	6,477	1,624	1,415
1947	48,910	9,620	1,890	1,602
1948	49,020	12,061	2,087	1,716
1949	46,800	11,740	2,137	1,748
1950	48,280	13,936	2,274	1,812
1951	58,120	14,270	2,562	2,078
1952	59,580	16,606	2,684	2,159
1953	60,840	19,013	2,844	2,233
1954	59,610	18,866	2,884	2,240
1955	65,200	16,704	3,008	2,416
1956	67,610	19,236	3,207	2,525
1957	70,590	21,095	3,314	2,569
1958	69,770	21,328	3,390	2,590
1959	71,700	19,112	3,556	2,822

TABLE 3.—NUMBER OF WORKERS AND AVERAGE EARNINGS, SELECTED YEARS—Continued

Year	Workers with taxable earnings[1]	With maximum earnings	Average earnings per worker	
			Total earnings[2]	Reported taxable[2]
1960	72,530	20,310	3,656	2,854
1961	72,820	21,265	3,717	2,879
1962	74,280	23,154	3,891	2,949
1963	75,540	24,570	4,002	2,986
1964	77,430	26,717	4,191	3,053
1965	80,680	29,136	4,359	3,108
1966	84,600	20,498	4,618	3,694
1967	87,040	22,948	4,852	3,791
1968	89,380	19,120	5,147	4,205
1969	92,060	22,577	5,462	4,373
1970	93,090	24,224	5,711	4,464
1971	93,340	26,404	5,996	4,574
1972	96,240	24,074	6,420	5,030
1973	99,830	20,250	6,879	5,628
1974	101,330	15,310	7,369	6,284
1975	100,200	15,070	7,860	6,633
1976	102,600	15,330	8,525	7,190
1977	105,800	15,700	9,075	7,718
1978	110,600	17,050	9,823	8,278
1979 [3]	113,700	11,320	10,666	9,389
1980 [3]	114,300	10,000	11,512	10,259
1981 [3]	114,900	8,470	12,570	11,271
1982 [4]	113,400	7,800	13,217	11,940
1983 [5]	115,500	7,000	13,830	12,584

---

[1] Relates to wage and salary workers for 1937–50. Beginning 1951, includes self-employment.

[2] Total wages, including estimated amounts above taxable limit, for 1937–50. Beginning 1951, also includes reported total net earnings of self-employed persons.

[3] Data subject to adjustment.

[4] Taxable earnings are preliminary estimates based on Social Security data; employment and total covered earnings are preliminary estimates based on data from Bureau of Labor Statistics and the National Income and Product Accounts.

[5] Preliminary estimates based on data from Bureau of Labor Statistics and the National Income and Product Accounts.

Source: Social Security Bulletins, Annual Statistics Supplement, 1983.

BENEFITS

In order to be fully insured, under the 1939 Amendments, a worker needed 2 quarters of coverage for each year elapsed since 1936 and before the quarter in which the worker died or turned 65. The minimum required for insured status was 6 quarters and the maximum was 40. The Social Security Amendments of 1950 significantly increased the number of workers who were insured for monthly benefits by requiring only one quarter of coverage, which could be earned at any time, for each calendar year after 1950 or age 21, subject to the same maximum and minimum. The 1967 Amendments liberalized the insured status requirements for disability benefits for workers under age 31 which significantly increased the number of workers insured for disability beginning in 1969.

The 1935 Social Security Act provided monthly benefits to retired workers age 65 and over and a lump-sum death benefit to these workers. The monthly benefits were to first be paid beginning January 1, 1942. The 1939 Social Security Amendments provided benefits to dependents—wives aged 65 and over and children under age 18—of retired workers, and to survivors—widows aged 65, mothers with eligible child in care, children under age 18, and dependent parents—of deceased workers. In addition the 1939 Amendments provided that these benefits first be paid in 1940.

Benefits which have been added in retirement and survivors programs since 1939 include: retired women aged 62–64 (1956); retired men aged 62–65 (1961); widows aged 60–64 (1956 and 1965); widowers aged 60 and over (1950, 1961, and 1972); and, disabled widows (1967, 1972, and 1977).

In 1956, benefits were extended to disabled workers aged 50–64 and to disabled children of retired, disabled, or deceased workers age 18 and over, if they became disabled prior to age 18. The Social Security Amendments of 1958 provided benefits to the dependents of disabled workers on the same basis as dependents of retired workers. Benefits for disabled workers under age 50 were provided in 1960.

Monthly cash benefits have been increased in order to offset the effects of inflation on an ad hoc basis 10 times prior to the first automatic cost-of-living adjustment which was incorporated in the act by the Social Security Amendments of 1972. Beginning with the 1975 increase, benefits have been increased automatically. Because inflation has been more than 3 percent in every year since 1975, there have been increases annually except during calendar year 1983.

The following tables provide historical background concerning changes in insured status, benefit types, average amounts and increases, and OASDHI benefits paid:

TABLE 4.—INSURED STATUS AND COVERED WORKERS, 1940–84

[In millions]

At beginning of year	Total number of living workers	Living workers insured for retirement and/or survivor benefits						Living workers insured in event of disability
		Total insured		Fully insured			Currently insured only	
		Number	Percent	Total	Permanently insured	Not permanently insured		
1940......	40.7	22.9	56.3	22.9	0.6	22.3	(1)	....
1941......	44.8	24.9	55.6	24.2	1.1	23.1	0.7	....
1942......	50.9	27.5	54.0	25.8	1.4	24.4	1.7	....
1943......	58.5	31.2	53.3	28.1	1.8	26.3	3.1	....
1944......	65.4	34.9	53.4	29.9	2.3	27.6	5.0	....
1945......	69.6	38.6	55.5	31.9	2.8	29.1	6.7	....
1946......	72.4	40.3	55.7	33.4	3.4	30.0	6.9	....
1947......	75.2	41.8	55.6	35.4	8.6	26.8	6.4	....
1948......	77.4	43.4	56.1	37.3	11.6	25.7	6.1	....
1949......	79.4	44.8	56.4	38.9	13.2	25.7	5.9	....
1950......	80.8	45.7	56.6	40.1	14.9	25.2	5.6	....
1951......	82.7	59.8	72.3	59.8	21.0	38.8	(1)	....
1952......	88.0	62.8	71.4	62.8	22.9	39.9	(1)	....
1953......	90.8	68.2	75.1	68.2	25.6	42.7	(1)	....
1954......	93.1	71.0	76.3	71.0	27.7	43.4	(1)	....
1955......	94.7	70.6	74.6	70.2	29.9	40.4	.4	31.9
1956......	98.6	71.4	72.4	70.5	32.5	38.0	.9	35.4
1957......	101.4	74.3	73.3	74.0	36.1	38.0	.3	37.2
1958......	103.8	77.0	74.2	76.1	38.3	37.9	.9	38.4
1959......	105.3	78.9	74.9	76.5	40.3	36.2	2.4	43.4
1960......	107.4	79.7	74.2	76.7	42.2	34.6	3.0	46.4
1961......	109.4	85.4	78.1	84.4	47.6	36.8	1.0	48.5
1962......	111.2	89.1	80.1	88.5	53.3	35.3	.5	50.5
1963......	113.3	90.4	79.8	89.8	54.9	34.8	.6	51.5
1964......	115.6	92.0	79.6	91.3	56.6	34.7	.8	52.3
1965......	118.1	93.6	79.3	92.8	58.3	34.5	.9	53.3
1966......	121.3	95.8	79.0	94.8	60.2	34.6	.9	55.0
1967......	125.0	98.3	78.6	97.2	61.9	35.3	1.1	55.7
1968......	127.9	101.2	79.1	99.9	63.3	36.6	1.3	56.9
1969......	130.8	104.0	79.5	102.6	64.5	38.1	1.4	70.1
1970......	133.5	106.9	80.1	105.4	65.8	39.6	1.5	72.4
1971......	135.9	109.8	80.8	108.2	67.0	41.2	1.6	74.5
1972......	138.2	112.2	81.2	110.7	68.2	42.5	1.7	76.1
1973......	140.6	114.8	81.7	113.3	69.8	43.5	1.6	77.8
1974......	142.9	118.1	82.6	116.5	71.0	45.5	1.6	80.4
1975......	145.2	121.6	83.7	120.0	72.6	47.4	1.6	83.3

TABLE 4.—INSURED STATUS AND COVERED WORKERS, 1940–84—Continued

[In millions]

At beginning of year	Total number of living workers	Living workers insured for retirement and/or survivor benefits						Living workers insured in event of disability
		Total insured		Fully insured			Currently insured only	
		Number	Percent	Total	Permanently insured	Not permanently insured		
1976......	148.3	124.6	84.0	123.0	74.2	48.8	1.6	85.3
1977......	151.0	127.4	84.4	125.8	76.0	49.8	1.6	87.0
1978......	153.7	130.4	84.8	128.9	78.0	50.9	1.5	89.3
1979......	156.4	134.8	86.2	133.0	80.1	52.9	1.8	93.7
1980......	159.0	138.7	87.2	137.0	82.7	54.3	1.7	98.0
1981......	161.5	141.5	87.6	139.8	85.0	54.8	1.7	100.4
1982 [2]...	164.0	144.9	88.3	143.2	87.5	55.7	1.7	102.5
1983 [2]...	166.3	148.0	89.0	146.3	90.1	56.2	1.7	103.7
1984 [2]...	168.0	151.1	89.9	149.4	92.7	56.7	1.7	106.6

---

[1] Persons currently insured before July 1940, or currently insured after August 1950 and before July 1954, are also fully insured.

[2] Preliminary.

Source: Social Security Statistical Supplement, 1983, and Office of Research, Statistics, and International Policy.

TABLE 5.—PERCENT OF INSURED WORKERS AGED 62 AND OVER IN CURRENT PAYMENT STATUS, 1941–84 [1]

	Aged 62–64			Aged 65 and over		
	Male	Female	Total	Male	Female	Total
1941				20	25	20
1945				29	40	30
1950				59	61	59
1951				57	55	56
1952				64	70	65
1953				60	64	61
1954				66	71	67
1955				70	75	71
1956				75	80	76
1960		44	44	84	87	85
1965	32	47	38	89	89	89
1966	32	46	37	90	89	89
1967	33	46	38	90	91	91
1968	33	46	38	90	91	90
1969	34	46	39	90	91	90
1970	34	46	39	90	90	90
1971	36	47	41	90	90	90
1972	39	49	43	91	89	90
1973	41	52	46	92	90	91
1974	44	54	48	94	91	93
1975	46	56	50	93	90	92
1976	49	57	53	94	90	92
1977	49	57	53	94	90	92
1978	52	59	55	95	91	93
1979	51	59	54	95	91	93
1980	52	59	55	95	91	93
1981	53	59	56	95	91	93
1982	55	59	57	95	91	93
1983	56	59	57	94	91	93
1984	57	58	58	95	91	93

---

[1] Includes both OASI and DI worker benefits.

Source: Social Security Statistical Supplement, 1983, and Office of Research, Statistics, and International Policy.

TABLE 6.—NUMBER OF OASDI BENEFIT RECIPIENTS WITH BENEFITS IN CURRENT-PAYMENT STATUS, BY BENEFICIARY TYPE, DECEMBER 1940–83

[In thousands]

At end of selected year	Retired workers and auxiliaries								Disabled workers and auxiliaries			
	Total	Retired workers	Wives and husbands	Children	Widowed mothers	Widows and widowers	Parents	Persons with special age–72 benefits	Total	Disabled workers	Wives and husbands	Children
1940	222	112	30	55	20	4	1					
1945	1,288	518	159	390	121	94	6					
1950	3,477	1,771	508	700	169	314	15					
1955	7,961	4,474	1,192	1,276	292	701	25					
1960	14,157	8,061	2,269	1,845	401	1,544	36		687	455	77	155
1961	15,468	8,925	2,392	1,989	428	1,697	37		1,027	618	118	291
1962	16,778	9,739	2,531	2,160	452	1,859	37		1,275	741	147	387
1963	17,583	10,263	2,581	2,230	462	2,011	37		1,452	827	168	457
1964	18,236	10,669	2,604	2,298	471	2,159	36		1,563	894	179	490
1965	19,128	11,101	2,614	2,535	472	2,371	35		1,739	988	193	558
1966	20,797	11,658	2,640	2,739	488	2,602	35	634	1,970	1,097	220	654
1967	21,565	12,019	2,645	2,873	496	2,770	33	729	2,140	1,193	235	713
1968	22,225	12,421	2,645	3,009	505	2,938	32	676	2,335	1,295	253	787
1969	22,827	12,822	2,644	3,123	512	3,092	30	603	2,488	1,394	264	829
1970	23,564	13,349	2,668	3,234	523	3,227	29	534	2,665	1,493	283	889
1971	24,362	13,927	2,698	3,336	535	3,366	27	472	2,930	1,648	312	971
1972	25,205	14,555	2,735	3,427	541	3,510	26	410	3,271	1,833	350	1,088
1973	26,309	15,365	2,808	3,526	572	3,656	24	358	3,559	2,017	381	1,161

TABLE 6.—NUMBER OF OASDI BENEFIT RECIPIENTS WITH BENEFITS IN CURRENT-PAYMENT STATUS, BY BENEFICIARY TYPE, DECEMBER 1940–83—Continued

[In thousands]

At end of selected year	Retired workers and auxiliaries								Disabled workers and auxiliaries			
	Total	Retired workers	Wives and husbands	Children	Widowed mothers	Widows and widowers	Parents	Persons with special age–72 benefits	Total	Disabled workers	Wives and husbands	Children
1974	26,941	15,959	2,826	3,513	574	3,770	23	278	3,911	2,237	412	1,263
1975	27,732	16,588	2,867	3,562	582	3,889	21	223	4,352	2,489	453	1,411
1976	28,400	17,165	2,896	3,556	579	3,995	20	188	4,624	2,670	474	1,480
1977	29,228	17,832	2,964	3,552	582	4,119	18	159	4,854	2,834	494	1,525
1978	29,718	18,358	2,980	3,441	576	4,212	17	134	4,869	2,880	492	1,497
1979	30,348	18,970	2,991	3,363	574	4,322	16	112	4,777	2,870	475	1,431
1980	30,937	19,583	3,018	3,251	563	4,415	15	93	4,682	2,861	462	1,359
1981	31,550	20,195	3,031	3,178	548	4,508	14	76	4,456	2,777	428	1,252
1982	31,867	20,764	3,039	2,879	515	4,595	12	63	3,973	2,604	366	1,004
1983	32,272	21,419	3,039	2,657	400	4,694	11	51	3,813	2,569	308	936

TABLE 7.—OASDI BENEFICIARY FAMILIES WITH BENEFITS IN CURRENT-PAY STATUS, BY SELECTED FAMILY GROUPS, SELECTED YEARS, 1944–82

[In thousands]

Year [1]	Retired-worker families				Survivor families				Disable-worker familes					
	Worker only			Worker and wife	Aged widow only	Widowed mother and—			Worker only			Worker, wife, and—		Worker and spouse
	Total	Men	Women			1 child	2 children	3 or more children	Total	Men	Women	1 child	2 or more children	
1944	315	253	62	135	69	67	36	20						
1950	1,240	939	301	498	314	82	53	33						
1955	3,266	2,054	1,212	1,124	700	126	86	80						
1960	5,742	2,922	2,820	2,122	1,527	172	113	114	357	261	96	22	32	22
1965	8,386	4,137	4,249	2,400	2,332	182	135	153	714	481	232	54	109	30
1970	10,533	4,904	5,629	2,457	3,080	183	155	182	1,054	680	374	77	164	43
1971	11,128	5,149	5,979	2,481	3,258	190	159	185	1,165	749	416	86	178	47
1972	11,653	5,364	6,288	2,507	3,325	188	166	184	1,287	821	467	98	198	52
1973	12,379	5,663	6,716	2,565	3,444	209	174	185	1,425	902	523	113	208	57
1974	12,948	5,862	7,086	2,583	3,536	218	176	178	1,586	989	598	123	224	62
1975	13,520	6,134	7,385	2,618	3,606	221	182	176	1,750	1,080	671	137	250	66
1976	14,056	6,351	7,705	2,647	3,706	219	186	171	1,883	1,152	730	144	257	72
1977	14,597	6,564	8,033	2,681	3,805	221	190	167	2,000	1,222	782	152	263	80
1978	15,148	6,791	8,357	2,697	3,894	228	186	158	2,043	1,245	798	155	256	81
1979	15,748	7,044	8,704	2,710	3,964	234	187	147	2,050	1,248	802	154	242	80
1980	16,314	7,286	9,028	2,736	4,033	239	184	134	2,061	1,257	804	154	228	80
1982	17,519	7,852	9,667	2,784	4,191	236	165	106	1,969	1,208	760	124	163	78

---

[1] Data for 1981 are not available.

TABLE 8.—OASDI AVERAGE MONTHLY BENEFITS IN CURRENT-PAYMENT STATUS, BY SELECTED FAMILY GROUPS, SELECTED YEARS, 1944–82

[Average monthly amount]

At end of year [1]	Retired-worker families				Survivor families				Disabled-worker families					
	Worker only			Worker and wife	Aged widow only	Widowed mother and—			Worker only			Worker, wife, and—		Worker and spouse
	Total	Men	Women			1 child	2 children	3 or more children	Total	Men	Women	1 child	2 or more children	
1944	23.00	24.10	19.30	37.90	20.20	34.40	47.30	50.10						
1950	42.20	44.60	34.80	71.70	36.50	76.90	93.90	92.40						
1955	59.10	64.60	49.80	103.50	48.70	106.80	135.40	133.20						
1960	69.90	79.90	59.60	123.90	57.70	131.70	188.00	181.70	87.90	91.90	76.90	184.70	192.20	135.50
1965	80.10	90.50	70.00	141.50	73.90	153.00	219.80	218.10	95.40	100.70	85.00	201.00	216.30	145.90
1970	114.20	128.70	101.60	198.90	102.40	213.00	291.10	289.90	128.10	136.30	113.10	264.10	273.20	199.20
1971	127.40	143.70	113.30	222.30	114.40	238.30	320.00	315.60	142.70	152.60	124.90	290.20	296.70	221.60
1972	157.10	177.00	140.20	272.50	138.30	290.00	383.10	376.10	175.00	188.20	151.80	356.30	362.80	274.20
1973	161.60	180.10	146.00	276.70	158.40	297.80	391.00	377.90	178.20	192.80	153.20	364.80	367.20	278.60
1974	183.10	204.20	164.60	312.30	178.80	335.00	438.40	421.90	200.00	217.80	170.60	409.90	411.30	314.00
1975	201.60	225.50	181.80	343.90	195.90	367.20	468.60	461.80	218.90	240.00	185.00	441.00	454.00	344.00
1976	218.80	245.10	197.10	373.10	211.00	399.80	503.40	499.70	327.40	261.40	199.40	482.20	495.70	377.00
1977	236.80	265.90	213.10	404.40	226.50	436.80	546.60	538.60	265.50	283.80	213.80	525.80	538.10	407.50
1978	256.60	288.90	230.30	437.50	243.60	474.00	591.90	582.80	277.90	308.50	230.20	568.00	585.90	443.00
1979	287.00	324.00	257.10	488.60	270.30	532.90	655.00	646.70	308.90	343.60	254.80	632.70	655.70	497.10
1980	333.00	377.10	297.40	566.60	311.60	612.80	759.20	740.50	355.40	396.20	291.70	727.00	746.10	573.00
1982	408.90	465.50	362.90	702.50	379.00	735.60	885.50	867.90	424.20	474.20	344.70	847.40	858.20	690.70

[1] Data for 1981 not available.

Source: Social Security Statistical Supplement, 1983, and Office of Research, Statistics, and International Policy.

TABLE 9.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI, 1965–84

[In percent]

	Increases in wages[1]		Increase in CPI[2]		Increase in benefits[3]	
	Over prior year	Cumulative from each year to 1984	Over prior year	Cumulative from each year to 1984	Over prior year	Cumulative from each year to 1984
1965	1.8	246.3	1.7	225.4	7.0	296.6
1966	6.0	226.7	2.9	216.3		296.6
1967	5.6	209.4	2.9	207.4		296.6
1968	6.9	189.4	4.2	195.0	13.0	250.1
1969	5.8	173.6	5.4	179.9		250.1
1970	5.0	160.6	5.9	164.3	15.0	205.2
1971	5.0	148.1	4.3	153.4	10.0	177.4
1972	9.8	126.0	3.3	145.3	20.0	131.2
1973	6.3	112.6	6.2	131.0		131.2
1974	5.9	100.8	11.0	108.1	11.0	108.3
1975	7.5	86.8	9.1	90.7	8.0	92.3
1976	6.9	74.5	5.7	80.4	6.4	81.3
1977	6.0	64.3	6.5	69.4	5.9	71.2
1978	7.9	52.7	7.6	57.5	6.5	60.7
1979	8.7	40.5	11.4	41.3	9.9	46.2
1980	9.0	28.8	13.5	24.5	14.3	27.9
1981	10.1	17.1	10.2	13.0	11.2	15.0
1982	[4] 5.5	11.0	6.0	6.6	7.4	7.1
1983	[4] 4.9	5.8	3.0	3.5	3.5	3.5
1984	[4] 5.8		[4] 3.5		[5] 3.5	

[1] Average annual earnings series used to index earnings records.

[2] Increase in annual average CPI-W.

[3] Legislated benefit increases through 1975 and increases based on CPI thereafter.

[4] Preliminary.

[5] Effective December 1984, payable January 1985.

Source: Office of Research, Statistics, and International Policy.

TABLE 10.—OASDHI EXPENDITURES AS PERCENT OF TOTAL SOCIAL WELFARE EXPENDITURE [1]

[Dollars in millions]

	Total expenditure [2]	OASDHI	Percent
1929	$3,921		
1940	8,795	$40.4	0.5
1950	23,508	784.1	3.3
1955	32,640	4,436.3	13.6
1960	52,293	11,032.3	21.1
1965	77,175	16,997.5	22.0
1970	145,856	36,835.4	25.3
1975	290,080	78,429.9	27.0
1979	429,771	131,719.4	30.6
1980	492,534	152,110.4	30.9
1981	550,476	180,425.0	32.8
1982	592,551	204,567.8	34.5

[1] Expenditures include those from Federal, State and local revenues (general and special) and trust funds and other expenditures under public law.

[2] Includes expenditures for public education, health and medical programs, veteran's programs, public aid (including SSI and food stamps) as well as social insurance programs other than social security.

Source: Social Security Statistical Supplement, 1983.

TABLE 11.—TOTAL OASDI BENEFITS PAID, AND AS A PERCENT OF PERSONAL INCOME

[In millions]

Year	Total benefits	Cash benefits		Personal income	Total benefits as a percent of personal income
		OASI	DI		
1937	$1	$1		$73,839	(1)
1938	10	10		68,041	(1)
1939	14	14		72,434	(1)
1940	35	35		77,902	(1)
1941	88	88		95,426	0.1
1942	131	131		122,573	.1
1943	166	166		150,845	.1
1944	209	207		164,511	.1
1945	274	274		169,958	.2
1946	378	378		177,608	.2
1947	466	466		190,080	.2
1948	556	556		209,014	.3
1949	667	667		206,375	.3
1950	961	961		227,181	.4
1951	1,885	1,885		254,942	.7

TABLE 11.—TOTAL OASDI BENEFITS PAID, AND AS A PERCENT OF PERSONAL INCOME—Continued

[In millions]

Year	Total benefits	Cash benefits		Personal income	Total benefits as a percent of personal income
		OASI	DI		
1952	2,194	2,194		271,772	.8
1953	3,006	3,006		287,688	1.0
1954	3,670	3,670		289,603	1.3
1955	4,968	4,968		310,341	1.6
1956	5,715	5,715		332,577	1.7
1957	7,404	7,347	$57	351,017	2.1
1958	8,576	8,327	249	361,146	2.4
1959	10,298	9,846	457	384,429	2.7
1960	11,245	10,677	568	402,346	2.8
1961	12,749	11,862	887	417,816	3.1
1962	14,461	13,356	1,105	443,626	3.3
1963	15,427	14,217	1,210	466,199	3.3
1964	16,223	14,914	1,309	499,205	3.2
1965	18,311	16,737	1,573	540,653	3.4
1966	20,048	18,267	1,781	588,167	3.4
1967	21,406	19,468	1,939	629,989	3.4
1968	24,938	22,642	2,294	690,604	3.6
1969	26,751	24,209	2,542	754,673	3.5
1970	31,863	28,796	3,067	811,088	3.9
1971	37,171	33,413	3,758	868,448	4.3
1972	41,595	37,122	4,473	951,353	4.4
1973	51,459	45,741	5,718	1,065,183	4.8
1974	58,521	51,618	6,903	1,168,593	5.0
1975	66,923	58,509	8,414	1,264,963	5.3
1976	75,665	65,699	9,966	1,391,192	5.4
1977	84,576	73,113	11,463	1,540,407	5.5
1978	92,865	80,352	12,513	1,732,673	5.4
1979	104,264	90,556	13,708	1,951,170	5.3
1980	120,511	105,074	15,437	2,165,315	5.6
1981	140,994	123,795	17,199	2,429,458	5.8
1982	156,138	138,800	17,338	2,584,598	6.0
1983	167,032	149,502	17,530	2,744,245	6.1
1984	[2] 176,174	[2] 158.231	[2] 17,943	NA	NA

[1] Less than 0.05 percent.

[2] Projected.

NA=Not available.

Source: Social Security Statistical Supplement, 1983.

TABLE 12.—ESTIMATED COST OF OASDI AND HI SYSTEMS AS PERCENT OF GNP UNDER ALTERNATIVE II–B, 1984–2055

[In percent]

Calendar year	OASDI	HI	OASDI–HI
1984	5.00	1.20	6.20
1985	4.90	1.24	6.14
1990	4.79	1.50	6.29
1995	4.63	1.78	6.41
2000	4.32	2.01	6.33
2005	4.21	2.19	6.40
2010	4.36	2.37	6.73
2015	4.77	2.58	7.35
2020	5.27	2.85	8.12
2025	5.72	3.16	8.88
2030	5.94	3.42	9.36
2035	5.97	3.57	9.54
2040	5.86	3.61	9.47
2045	5.77	3.58	9.35
2050	5.73	3.54	9.27
2055	5.69	3.49	9.18
Averages:			
1984–2008	4.55	1.79	6.34
2009–2033	5.28	2.92	8.20
2034–2058	5.79	3.55	9.34
1984–2058	5.20	2.75	7.95

Source: 1984 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Tables 31 and F3.

TABLE 13.—COST RATES FOR THE OASI AND DI TRUST FUNDS AS A PERCENT OF TAXABLE PAYROLL, 1940–83

[In percent]

Calendar year	OAI [1]	SI [1]	OASI	DI	OASDI
1940	0.10	0.9	0.19		0.19
1941	.16	.11	.27		.27
1942	.17	.13	.30		.30
1943	.18	.14	.32		.32
1944	.20	.16	.36		.36
1945	.26	.22	.48		.48
1946	.36	.25	.61		.61
1947	.40	.25	.65		.65

TABLE 13.—COST RATES FOR THE OASI AND DI TRUST FUNDS AS A PERCENT OF TAXABLE PAYROLL, 1940–83—Continued

[In percent]

Calendar year	OAI [1]	SI [1]	OASI	DI	OASDI
1948	.46	.26	.72		.72
1949	.58	.31	.89		.89
1950	.79	.38	1.17		1.17
1951	1.18	.50	1.68		1.68
1952	1.28	.55	1.83		1.83
1953	1.71	.64	2.35		2.35
1954	2.12	.77	2.89		2.89
1955	2.52	.82	3.34		3.34
1956	2.72	.84	3.56		3.56
1957	3.32	.97	4.29	0.03	4.32
1958	3.85	1.10	4.95	.15	5.10
1959	4.07	1.20	5.27	.24	5.51
1960	4.29	1.30	5.59	.30	5.89
1961	4.67	1.46	6.13	.47	6.60
1962	5.02	1.58	6.60	.56	7.16
1963	5.19	1.65	6.84	.59	7.43
1964	5.17	1.66	6.83	.62	7.45
1965	5.42	1.81	7.23	.70	7.93
1966	4.58	1.66	6.24	.64	6.88
1967	4.63	1.64	6.27	.65	6.92
1968	4.64	1.71	6.35	.67	7.03
1969	4.66	1.72	6.38	.70	7.08
1970	5.36	1.96	7.32	.81	8.12
1971	6.07	2.20	8.27	.97	9.23
1972	5.98	2.15	8.13	1.01	9.14
1973	6.21	2.38	8.59	1.09	9.69
1974	6.20	2.35	8.55	1.16	9.70
1975	6.77	2.52	9.29	1.36	10.65
1976	6.89	2.53	9.42	1.44	10.86
1977	6.93	2.53	9.46	1.50	10.97
1978	6.85	2.44	9.29	1.45	10.74
1979	6.59	2.31	8.90	1.36	10.26
1980	6.95	2.41	9.36	1.38	10.74
1981	7.43	2.50	9.93	1.39	11.32
1982	8.07	2.60	10.67	1.35	12.02
1983	7.85	2.43	10.28	1.22	11.51

---

[1] These estimates are based on the assumption that total OASI expenditures are distributed between OAI and SI in the same proportions as for actual benefits.

Note: All numbers in this table are presented as percentages of taxable payroll and are based on data published in 1984 and earlier Trustees Reports.

Source: Office of the Actuary, Social Security Administration.

TABLE 14.—ESTIMATED COST RATES FOR THE OASDI TRUST FUND AS A PERCENT OF TAXABLE PAYROLL, 1984–2060

[In percent]

Calendar year	OAI	SI	OASI	DI	OASDI
1984	7.86	2.31	10.17	1.15	11.32
1985	7.80	2.26	10.06	1.09	11.15
1990	7.85	2.17	10.02	1.00	11.02
1995	7.64	2.07	9.71	1.02	10.73
2000	7.08	1.92	9.01	1.07	10.08
2005	6.89	1.81	8.70	1.24	9.94
2010	7.21	1.74	8.95	1.44	10.40
2015	8.27	1.72	9.99	1.55	11.54
2020	9.57	1.75	11.31	1.61	12.92
2025	10.75	1.80	12.55	1.68	14.23
2030	11.49	1.86	13.36	1.65	15.01
2035	11.77	1.92	13.68	1.61	15.29
2040	11.65	1.94	13.59	1.63	15.22
2045	11.58	1.95	13.52	1.67	15.19
2050	11.70	1.93	13.63	1.68	15.31
2055	11.87	1.90	13.77	1.65	15.42
2060	11.94	1.88	13.81	1.63	15.45
25-year averages:					
1984–2008	7.43	2.03	9.45	1.10	10.54
2009–2033	9.64	1.78	11.42	1.60	13.02
2034–2058	11.72	1.93	13.65	1.65	15.29
75-year average:					
1984–2058	9.60	1.91	11.51	1.45	12.95

Note: All estimates in this table are presented as percentages of taxable payroll and are based on the Alternative II–B assumptions of the 1984 Trustees Report.

Source: Office of the Actuary.

TABLE 15.—PAST AND FUTURE EARNINGS LEVELS, PRIMARY INSURANCE AMOUNTS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, UNDER PRESENT LAW, 1953–2040 [1]

Calendar year	Actual earnings in previous year			Sum of monthly PIA's in year of entitlement [2]						Replacement rates [3] (in percent)		
				Actual dollars			1984 constant dollars					
	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]
1953 [5]	1,560	2,973	3,600	714	912	1,020	2,772	3,541	3,960	45.8	30.7	28.3
1955 [5]	1,560	3,156	3,600	774	1,091	1,182	3,001	4,230	4,583	49.6	34.6	32.8
1960 [5]	2,080	3,856	4,800	936	1,284	1,428	3,286	4,507	5,013	45.0	33.3	29.8
1965 [5]	2,600	4,576	4,800	1,040	1,439	1,580	3,428	4,741	5,207	40.0	31.4	32.9
1970 [5]	3,328	5,894	7,800	1,421	2,021	2,278	3,804	5,410	6,098	42.7	34.3	29.2
1975 [5]	3,883	8,031	13,200	2,309	3,400	3,973	4,461	6,568	7,675	59.5	42.3	30.1
1980 [5]	6,032	11,479	22,900	3,859	5,862	7,437	4,865	7,390	9,375	64.0	51.1	32.5
1983	6,968	14,531	32,400	4,429	6,655	8,533	4,637	6,968	8,934	63.6	45.8	26.3
1984	6,968	15,239	35,700	4,344	6,523	8,461	4,344	6,523	8,461	62.3	42.8	23.7
1985	6,968	16,123	37,800	[6] 4,448	6,606	8,642	[6] 4,224	6,274	8,207	[6] 63.8	41.0	22.9
1988	8,315	19,239	44,400	5,348	8,131	10,853	4,371	6,645	8,870	64.3	42.3	24.4
1990	9,313	21,549	50,100	5,852	8,922	12,040	4,409	6,722	9,071	62.8	41.4	24.0
2000	15,885	36,755	85,800	9,752	15,171	21,828	4,964	7,722	11,110	61.4	41.3	25.4
2010	27,134	62,783	147,600	16,049	25,922	39,780	5,518	8,913	13,678	59.1	41.3	27.0
2020	46,349	107,242	252,300	26,657	44,283	69,531	6,192	10,287	16,152	57.5	41.3	27.6

TABLE 15.—PAST AND FUTURE EARNINGS LEVELS, PRIMARY INSURANCE AMOUNTS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, UNDER PRESENT LAW, 1953–2040 [1]—Continued

Calendar year	Actual earnings in previous year			Sum of monthly PIA's in year of entitlement [2]						Replacement rates [3] (in percent)		
				Actual dollars			1984 constant dollars					
	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]
2030	79,170	183,185	430,500	44,837	75,660	118,907	7,036	11,873	18,660	56.6	41.3	27.6
2040	135,234	312,906	735,600	76,586	129,249	203,224	8,119	13,702	21,545	56.6	41.3	27.6

[1] For workers becoming entitled for January at age 65 with steady career earnings.
[2] PIA's rounded to nearest dollars.
[3] Sum of monthly PIA's in year of entitlement expressed as percent of earnings in year prior to entitlement.
[4] Earnings equal to the social security taxable earnings base.
[5] PIA's and replacement rates for these workers are based on the pre-1977 benefit formula.
[6] Based on special minimum PIA computation.

Source: Office of the Actuary, Social Security Administration.

FINANCING

The payroll tax is imposed on covered wages up to a specific dollar amount. Workers who earn more than the maximum taxable wage base do not pay FICA (Federal Insurance Contributions Act) tax on their earnings above the wage base.

The wage base has increased numerous times from 1937 through 1984. A majority of these increases have been provided through specific legislative amendments. However, the wage base is currently automatically adjusted annually according to the increase in average wages in the economy, but only if the cost-of-living benefit increase was established for the previous July.

The tax rates have also been changed many times since 1937. Under the original act, the OASI tax rate was scheduled to gradually increase from 1 percent in 1937 to 3 percent in 1949. These increases were delayed several times during the 1940's and the tax rate did not increase to 1.5 percent until 1950. The current 1985 OASI tax rate is 5.2 percent. The tax for the disability insurance program was 0.25 percent in 1957 and is 0.50 percent in 1985. The hospital insurance (medicare part A) rate was 0.35 percent in 1966 and is currently 1.35 percent. (For 1984 only, employees are allowed a credit of 0.3 percent of their taxable wages against their FICA tax liability, reducing the effective tax rate to 6.7 percent.)

Beginning in 1984, the OASDHI rates for self-employed persons is equal to the combined employer-employee OASDHI rate. For 1984, self-employed persons were allowed a credit (comparable to the credit allowed employers against the FICA tax) against SECA (Self Employed Contributions Act) tax equal to 0.3 percent of net self-employment income. In addition, beginning in 1984, self-employed persons were entitled to a credit against SECA tax. For 1984, the amount of the credit was 2.7 percent of net self-employment income. For 1985, the amount of the credit is 2.3 percent. For 1986 through 1989, the credit will be 2.0 percent. The SECA tax credit may directly be taken into account in computing SECA liability for a taxable year and estimated tax payments for that year.

Effective in 1990 and thereafter, the credit would terminate and be replaced with a system designed to achieve parity between employees and the self-employed. Under this system:

1. The base of the self-employment tax will be adjusted downward to reflect the fact that employees do not pay FICA tax on the value of the employer's FICA tax.
2. A deduction will be allowed for income tax purposes, for half of SECA liability, to allow for the fact that employees do not pay income tax on the value of the employer's FICA tax.

The following four tables detail the annual taxable earnings base, the three individual and combined tax rates and the annual maximum contribution for both employees, employers, and self-employed persons:

TABLE 16.—ANNUAL MAXIMUM TAXABLE EARNINGS AND CONTRIBUTION RATE: EMPLOYERS AND EMPLOYEES, 1937–99

Beginning—	Annual maximum taxable earnings	Contribution rate			
		Total	OASI	DI	HI
1937	$3,000	1	1		
1950	3,000	1.5	1.5		
1951	3,600	1.5	1.5		
1954	3,600	2	2		
1955	4,200	2	2		
1957	4,200	2.25	2	0.25	
1959	4,800	2.5	2.25	.25	
1960	4,800	3	2.75	.25	
1962	4,800	3.125	2.875	.25	
1963	4,800	3.625	3.375	.25	
1966	6,600	4.2	3.5	.35	0.35
1967	6,600	4.4	3.55	.35	.5
1968	7,800	4.4	3.325	.475	.6
1969	7,800	4.8	3.725	.475	.6
1970	7,800	4.8	3.65	.55	.6
1971	7,800	5.2	4.05	.55	.6
1972	9,000	5.2	4.05	.55	.6
1973	10,800	5.85	4.3	.55	1.0
1974	13,200	5.85	4.375	.575	.9
1975	14,100	5.85	4.375	.575	.9
1976	15,300	5.85	4.375	.575	.9
1977	16,500	5.85	4.375	.575	.9
1978	17,700	6.05	4.275	.775	1.00
1979	22,900	6.13	4.33	.75	1.05
1980	25,900	6.13	4.52	.56	1.05
1981	29,700	6.65	4.70	.65	1.3
1982	32,400	6.7	4.575	.825	1.3
1983	35,700	6.7	4.775	.625	1.3
1984 [1]	37,800	7.0	5.2	.5	1.3
1985	39,600	7.05	5.2	.5	1.35
1986–1987	([2])	7.15	5.2	.5	1.45
1988–1989	([2])	7.51	5.53	.53	1.45
1990–1999	([2])	7.65	5.6	.60	1.45

[1] Tax credits apply for 1984.

[2] Subject to automatic increase.

Source: Social Security Bulletin, Annual Statistical Supplement, 1983, p. 21.

TABLE 17.—MAXIMUM ANNUAL CONTRIBUTION: EMPLOYEE, 1937–84

Beginning—	Total	OASI	DI	HI
1937	$30.00	$30.00		
1950	45.00	45.00		
1951	54.00	54.00		
1954	72.00	72.00		
1955	84.00	84.00		
1957	94.50	84.00	$10.50	
1959	120.00	108.00	12.00	
1960	144.00	132.00	12.00	
1962	150.00	138.00	12.00	
1963	174.00	162.00	12.00	
1966	277.20	231.00	23.10	$23.10
1967	290.40	234.30	23.10	33.00
1968	343.20	259.35	37.05	46.80
1969	374.40	290.55	37.05	46.80
1970	374.40	284.70	42.90	46.80
1971	405.60	315.90	42.90	46.80
1972	468.00	364.50	49.50	54.00
1973	631.80	464.40	59.40	108.00
1974	772.20	577.50	75.90	118.80
1975	824.85	618.88	81.08	126.90
1976	895.05	669.38	87.98	137.70
1977	965.25	721.88	94.88	148.50
1978	1,070.85	756.68	137.18	177.00
1979	1,403.77	991.57	171.75	240.45
1980	1,587.67	1,170.68	145.04	271.95
1981	1,975.05	1,395.90	193.05	386.10
1982	2,170.81	1,482.30	267.30	421.20
1983	2,391.90	1,704.68	223.12	464.10
1984 [1]	2,646.00	1,965.60	189.00	491.40
Total cumulative employee contributions 1937 to 1984 [1]	21,974.39	16,498.73	2,086.27	3,389.40

[1] In 1984 employees were eligible for a tax credit of 0.3 percent of taxable earnings.

Source: Social Security Bulletin, Annual Statistical Supplement, 1983, p. 24.

TABLE 18.—ANNUAL MAXIMUM TAXABLE EARNINGS AND CONTRIBUTION RATE: SELF-EMPLOYED, 1937–99

Beginning—	Annual maximum taxable earnings	Contribution rate			
		Total	OASI	DI	HI
1937	$3,000				
1950	3,000				
1951	3,600	2.25	2.25		
1954	3,600	3	3		
1955	4,200	3	3		
1957	4,200	3.375	3	0.375	
1959	4,800	3.75	3.375	.375	
1960	4,800	4.5	4.125	.375	
1962	4,800	4.7	4.325	.375	
1963	4,800	5.4	5.025	.375	
1966	6,600	6.15	5.275	.525	0.35
1967	6,600	6.4	5.375	.525	.5
1968	7,800	6.4	5.0875	.7125	.6
1969	7,800	6.9	5.5875	.7125	.6
1970	7,800	6.9	5.475	.825	.6
1971	7,800	7.5	6.075	.825	.6
1972	9,000	7.5	6.075	.825	.6
1973	10,800	8	6.205	.795	1.0
1974	13,200	7.9	6.185	.815	.9
1975	14,100	7.9	6.185	.815	.9
1976	15,300	7.9	6.185	.815	.9
1977	16,500	7.9	6.185	.815	.9
1978	17,700	8.10	6.01	1.09	1.00
1979	22,900	8.10	6.01	1.04	1.05
1980	25,900	8.10	6.2725	.7775	1.05
1981	29,700	9.30	7.025	.975	1.30
1982	32,400	9.35	6.8125	1.2375	1.30
1983	35,700	9.35	7.1125	.9375	1.30
1984 [1]	37,800	14.0	10.4	1.0	2.6
1985 [1]	39,600	14.1	10.4	1.0	2.7
1986 to 1987 [1]	([2])	14.3	10.4	1.0	2.9
1988–1989 [1]	([2])	15.02	11.06	1.06	2.9
1990–1999	([2])	15.3	11.2	1.2	2.9

[1] Tax credits apply from 1984 through 1989.

[2] Subject to automatic increase.

Source: Social Security Bulletin, Annual Statistical Supplement, 1983, p. 21.

TABLE 19.—MAXIMUM ANNUAL CONTRIBUTION: SELF-EMPLOYED, 1937–84

Beginning—	Total	OASI	DI	HI
1937				
1950				
1951	$81.00	$81.00		
1954	108.00	108.00		
1955	126.00	126.00		
1957	141.75	126.00	$15.75	
1959	180.00	162.00	18.00	
1960	216.00	198.00	18.00	
1962	225.60	207.60	18.00	
1963	259.20	241.20	18.00	
1966	405.90	348.15	34.65	$23.10
1967	422.40	354.75	34.65	33.00
1968	499.20	396.82	55.57	46.80
1969	538.20	435.82	55.57	46.80
1970	538.20	427.05	64.35	46.80
1971	585.00	473.85	64.35	46.80
1972	675.00	546.75	74.25	54.00
1973	864.00	670.14	85.86	108.00
1974	1,042.80	816.42	107.58	118.80
1975	1,113.90	872.08	114.91	126.90
1976	1,208.70	946.30	124.69	137.70
1977	1,303.50	1,020.52	134.47	148.50
1978	1,433.70	1,063.77	192.93	177.00
1979	1,854.90	1,376.29	238.16	240.45
1980	2,097.90	1,624.58	201.37	271.95
1981	2,762.10	2,086.43	289.57	386.10
1982	3,029.40	2,207.25	400.95	421.20
1983	3,337.95	2,539.16	334.69	464.10
1984 [1]	5,292.00	3,931.20	378.00	982.80
Cumulative contributions, 1937 to 1984 [1]	31,506.45	24,481.56	3,144.09	3,880.80

---

[1] In 1984 the self-employed were eligible for a tax credit of 2.7 percent of their self-employment income.

Source: Social Security Bulletin, Annual Statistical Supplement, 1983, p. 24.

Table 20 indicates the status of the three major social security funds, both separated and combined, measured as assets available at the beginning of each year as a percent of actual outgo during the year.

TABLE 20.—ASSETS OF OLD-AGE AND SURVIVORS INSURANCE (OASI), DISABILITY INSURANCE (DI), AND HOSPITAL INSURANCE TRUST FUNDS AT BEGINNING OF YEAR AS PERCENT OF OUTGO DURING YEAR

[In percent]

Calendar year	OASI	DI	HI	Combined
1937				
1938	7,660			7,660
1939	8,085			8,085
1940	2,781			2,781
1941	1,782			1,782
1942	1,737			1,737
1943	1,891			1,891
1944	2,025			2,025
1945	1,975			1,975
1946	1,704			1,704
1947	1,592			1,592
1948	1,542			1,542
1949	1,487			1,487
1950	1,156			1,156
1951	698			698
1952	681			681
1953	564			564
1954	500			500
1955	405			405
1956	371			371
1957	300			300
1958	259	249		259
1959	212	284		215
1960	180	304		186
1961	164	239		169
1962	141	206		146
1963	123	183		128
1964	118	159		122
1965	109	121		110
1966	96	83		91
1967	101	83	28	90
1968	103	83	25	90
1969	102	111	43	95

TABLE 20.—ASSETS OF OLD-AGE AND SURVIVORS INSURANCE (OASI), DISABILITY INSURANCE (DI), AND HOSPITAL INSURANCE TRUST FUNDS AT BEGINNING OF YEAR AS PERCENT OF OUTGO DURING YEAR—Continued

[In percent]

Calendar year	OASI	DI	HI	Combined
1970	101	126	47	96
1971	94	140	54	93
1972	88	140	47	87
1973	75	125	40	76
1974	68	110	69	73
1975	63	92	79	68
1976	54	71	77	60
1977	47	48	66	50
1978	39	26	57	41
1979	30	30	54	34
1980	23	35	52	29
1981	18	21	45	23
1982	15	17	52	22
1983	[1] 14	[2] 15	[3] 21	16

[1] Assets include $17.52 billion loaned by the DI and HI trust funds.

[2] Assets exclude $5.08 billion loaned to the OASI trust fund.

[3] Assets exclude $12.44 billion loaned to the OASI trust fund.

Source: Social Security Statistical Supplement, 1983 and various trustees' reports.

APPENDIX B. DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AGED

This appendix presents selected data on the demographic and economic characteristics of the elderly. The data presented here typically covers several time periods and describes the number (table 1), marital status (table 2), living arrangements (table 3), labor force participation (table 4), poverty status (table 5), income (tables 6–17), assets (tables 18–21) of the elderly, and tables 22–24 present characteristics of new retirees. The tables within the appendix are derived from the following sources:

(1) Social Security Administration, New Beneficiary Survey, 1982;

(2) Special tabulations of the March 1984 CPS survey by the Congressional Research Service;

(3) U.S. Bureau of the Census, Current Population Report, series P–20, P–60, and P–23;

(4) Social Security Administration, Survey of Income and Program Participation, 1979;

(5) 1981 Employment and Training Report of the President; and

(6) Economic Report of the President, February, 1985.

The data source for each table is noted at the bottom of each table.

Some definitions that may be useful for reading the tables:

(1) Aged and elderly refer to anyone 65 years and older.

(2) OASDI and social security are interchangeable terms.

(3) Supplemental security income, at times, is abbreviated SSI.

The information for tables 12–14 was obtained from the Social Security Administration's Survey of Income and Program Participation of 1979. These were special tabulations requested by committee staff to examine the income sources for families with elderly members.

Table 1 illustrates that the elderly as a percentage of the population will increase from 6.8 percent in 1940 to 13.0 percent in the year 2000. The actual number of individuals 65 and over will almost quadruple from 9 million in 1940 to 36.2 million in the year 2000. In addition, the percentage of the population age 75 and over, particularly women, will grow at an even faster rate. For example, the percentage of the population that is female and over age 75 was 1.1 percent in 1940 and will climb to 4.2 percent by the year 2000. In actual numbers, this is an increase from 1.4 million to 11.7 million.

Table 2 presents information on the marital status of aged individuals over time. The significant feature of the table is the large percentage of women 75 years and older who are widowed. As shown in table 3, 67.5 percent of widowed women age 65 and older lived alone in 1984. Compared to 1970, the number of widowed women living alone has increased from 3.3 million to 5.3 million.

Table 4 presents information on the labor force participation rates of individuals age 55 and older. Since 1950, the labor force participation of men in this age group has steadily declined. For example, the rate has gone from 86.9 percent for men age 55 to 64 to 68.5 percent in 1984. The rate for men 65 and older has declined from 45.8 percent to 16.3 percent. The labor force participation rates for women are significantly different. The labor force participation for women age 55 to 64 has increased from 27.0 percent in 1950 to 41.7 percent in 1984. The rate for women 65 and over has decreased only slightly.

TABLE 1.—ELDERLY POPULATION AS PERCENT OF TOTAL POPULATION AND DISTRIBUTION OF ELDERLY BY AGE, 1940 TO 1970, AND PROJECTION 1979 TO 2025, SELECTED YEARS

	1940	1950	1960	1970	1980	1990[1]	2000[1]	2025[1]
Population 65 years and older (in thousands)	9,019	12,257	16,207	20,101	26,364	32,570	36,184	60,768
Percent of total population	6.8	8.2	9.0	9.9	11.2	12.6	13.0	19.3
Certain age and sex groupings as a percent of the population 65 years and older:								
Total 65 years and older	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Men 65 and older	48.8	46.8	45.1	42.0	40.1	39.7	39.7	42.4
Men 65 to 74	35.1	32.7	31.0	27.0	26.0	24.9	22.7	26.3
Men 75 and older	13.7	14.1	14.1	15.0	14.1	14.8	17.0	16.1
Women 65 and older	51.2	53.2	54.9	58.0	59.9	60.3	60.3	57.6
Women 65 to 74	35.6	35.9	35.9	34.8	33.8	32.0	27.9	30.3
Women 75 and older	15.6	17.3	19.0	23.2	26.1	28.3	32.4	27.3

[1] Projection.

Note: Population data for 1940 and 1950 include coterminous U.S. only; 1960 and 1970 refer to total U.S. population; 1980 to 2025 refer to total U.S. plus the outlying areas and include an adjustment for the population under count.

Source: 1940 to 1970, U.S. Bureau of the Census, U.S. Census of Population, 1940, 1960, and 1970; 1980 to 2025, 1984 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, and unpublished estimates from the Office of the Actuary, Social Security Administration.

TABLE 2.—MARITAL STATUS OF AGED INDIVIDUALS,[1] BY SEX AND AGE, 1968, 1978, AND 1984

	1968		1978		1984	
	65 to 74	75 and over	65 to 74	75 and over	65 to 74	75 and over
Men:						
Number (in thousands)	5,096	2,776	6,080	3,090	7,067	3,682
Percent	100.0	100.0	100.0	100.0	100.0	100.00
Married, wife present	79.4	59.7	78.1	68.2	80.0	67.3
Married, wife absent	2.0	2.3	3.0	2.1	1.9	2.8
Widowed	10.8	30.3	9.7	23.0	8.9	23.8
Divorced	2.6	1.9	3.5	1.8	3.7	2.0
Never married	5.3	5.8	5.7	4.8	5.5	4.0
Women:						
Number (in thousands)	6,395	3,978	8,189	5,109	9,172	6,370
Percent	100.0	100.0	100.0	100.0	100.00	100.00
Married, husband present	45.6	20.5	46.2	21.6	48.8	22.9
Married, husband absent	1.5	.8	2.2	1.3	1.9	1.0
Widowed	43.3	70.2	41.2	69.3	39.1	66.9
Divorced	2.5	1.4	3.9	2.1	5.2	2.7
Never married	7.1	7.2	6.6	5.7	5.0	6.5

[1] Civilian noninstitutional population only.

Note: Details may not add to totals due to rounding.

Source: U.S. Bureau of the Census, Current Population Report, series P-20, Nos. 187, 338, and 372, and unpublished data.

TABLE 3.—LIVING ARRANGEMENTS OF PERSONS AGED 65 AND OVER, 1970 AND 1984

[Civilian noninstitutionalized population, number in thousands]

Living arrangement	Total	Percent	Widowed men	Percent	Widowed women	Percent
Total:						
1970	19,061	100.0	1,333	100.0	5,946	100.0
1984	26,291	100.0	1,510	100.0	7,847	100.0
In families:						
1970	13,347	70.0	499	37.4	2,386	40.1
1984	17,676	67.2	441	29.2	2,323	29.6
Living alone:						
1970	5,071	26.6	708	53.1	3,309	55.7
1984	7,966	30.3	953	63.1	5,298	67.5
Other:						
1970	645	3.4	126	9.5	251	4.2
1984	649	2.5	116	7.7	226	2.9

Source: Bureau of the Census, Current Population Reports, P-20, No. 376 and unpublished data.

TABLE 4.—CIVILIAN LABOR FORCE PARTICIPATION RATES [1] OF PERSONS 55 YEARS AND OVER, BY AGE AND SEX, SELECTED YEARS, 1950–84

Years	1950	1955	1960	1965	1970	1975	1980	1984
Men:								
55 to 64	86.9	87.9	86.8	84.6	83.0	75.8	72.3	68.5
55 to 59	(2)	92.5	91.6	90.2	89.5	84.4	81.9	80.2
60 to 64	(2)	82.5	81.1	78.0	75.0	65.7	61.0	56.1
60 to 61	(2)	(2)	(2)	84.8	82.6	75.2	71.8	(2)
62 to 64	(2)	(2)	(2)	73.2	69.4	58.8	52.8	(2)
65 and over	45.8	39.6	33.1	27.9	26.8	21.7	19.1	16.3
Women:								
55 to 64	27.0	32.5	37.2	41.4	43.0	41.0	41.5	41.7
55 to 59	(2)	35.6	42.2	47.1	50.4	47.9	48.6	49.8
60 to 64	(2)	29.0	31.4	34.0	36.1	33.3	33.3	33.4
60 to 61	(2)	(2)	(2)	40.4	41.4	39.5	39.8	(2)
62 to 64	(2)	(2)	(2)	29.5	32.3	29.0	28.6	(2)
65 and over	9.7	10.6	10.8	10.0	9.7	8.3	8.1	7.5

[1] Civilian labor force as percent of civilian population.

[2] Data not available.

Source: Monthly Labor Review, November 1979, 1981 Employment and Training Report of the President, and January issue of Employment and Earnings.

Table 5 presents information on the poverty status of elderly individuals. Overall, 3.7 million, or 14.1 percent of the noninstitutionalized aged, were poor in 1983. In spite of the slightly lower incidence of poverty among the aged than for the population as a whole, poverty among the aged varied considerably. As with other groups, the poverty rate among the black aged was higher than that of the white aged—36.3 percent compared to 12.0 percent, respectively. Unrelated aged individuals, who generally tend to be older than aged persons living in families and are likely to be female, had a poverty rate (26.5 percent), over three times greater than that of aged persons living in families (8.1 percent). White unrelated individuals had a poverty rate of 23.3, while black unrelated individuals had a rate of 58.2 percent. Women, who accounted for 59.1 percent of the noninstitutionalized aged population, accounted for 71.1 percent of the aged poor.

TABLE 5.—CHANGES IN POVERTY STATUS OF ALL PERSONS, AND THE ELDERLY BY SEX, RACE AND FAMILY STATUS, SELECTED YEARS 1959 TO 1983

[Percent below the poverty level]

	1959	1966	1970	1975	1980	1982	1983 [2]
All persons	22.4	14.7	12.6	12.3	13.0	15.0	15.2
Persons 65 years old and over:							
Both sexes	35.2	28.5	24.5	15.3	15.7	14.6	14.1
Men	N.A.	23.7	19.0	11.4	10.9	10.4	10.0
Women	N.A.	32.1	28.4	18.1	19.0	17.5	17.0
Black women [1]	N.A.	57.3	53.2	40.2	42.6	42.4	41.7
Wives	57.7	51.9	41.8	23.8	23.5	N.A.	N.A.
Unrelated individual	84.6	83.9	79.2	65.8	66.6	66.3	63.6
Black men [1]	N.A.	52.2	41.3	31.0	31.5	31.8	28.3
Family head	60.4	50.0	39.2	26.0	25.0	N.A.	N.A.
Unrelated individual	77.5	72.7	59.7	51.8	45.4	50.2	46.0
White women [1]	N.A.	30.3	26.5	16.1	16.8	15.1	14.7
Wives	28.9	20.2	14.0	7.2	7.0	N.A.	N.A.
Unrelated individual	61.8	55.2	47.5	29.1	29.3	25.4	24.5
White men [1]	N.A.	21.3	17.0	9.5	9.0	8.3	8.2
Family head	26.8	18.7	13.8	7.1	6.9	N.A.	N.A.
Unrelated individual	56.8	41.3	36.0	23.8	21.1	16.9	18.5

[1] Total includes other types of family members not separately designated.

[2] The poverty definition used to produce the estimates for 1981 and years after changed slightly from previous years. If the new method were used for 1980, the heading "All persons" would read 13.2 percent below the poverty level, not 13.0 percent.

N.A.—Not available.

Sources: U.S. Bureau of the Census, Current Population Reports series P–60 referring to the population below the poverty level, various years in series.

Tables 6 and 7 present data for aged individuals living in families. In parallel fashion, tables 8 and 9 present information for individuals living alone (technically unrelated individuals). Table 6 presents the percentage of aged families (unrelated individuals) classified on the basis of total income to the poverty threshold with income from various sources. For example, from table 6 we learn that 15.2 percent of families with income under 50 percent of the poverty threshold had income from earnings. Poor (the second to last column in table 6) is defined in all of these tables as having income less than the poverty threshold. Nonpoor are all families (unrelated individuals) with incomes above the poverty threshold.

Table 7 presents the percent of total income which is comprised of various types of income where families (unrelated individuals) are again classified on the basis of total income to the poverty threshold. For example, from table 7 we learn that 10.2 percent of total family income for poor families is comprised of earnings as compared to 36.9 percent for nonpoor families. Pension income accounts for 2.6 percent of total income received by poor families while it comprises 12.8 percent for nonpoor families.

Elderly individuals living alone are more than three times as likely to be living in poverty (26.5) as compared to aged individuals living in families (8.7). The percentage of single elderly below 1.25 percent of the poverty threshold is 41.1 percent. This compares to 14.2 for families with an elderly member and to 13.4 percent for families without an elderly member.

Overall, about half of all families with an aged member had earnings (table 6). About 92 percent also received social security. Consequently, at least 40 percent of all families with an aged member received both retirement and earned income during the year. In some cases, these families may consist of an older retiree, typically a male, with a younger spouse who may still be working. In other cases, a single aged person may live with children or relatives who are actively involved in the labor force.

Nonpoor families with an aged member were more likely to have income from earnings than were poor families—50 percent compared to 23 percent, respectively.

Retirement income in the form of social security and pensions differed markedly between the poor and nonpoor. Receipt of social security was somewhat higher for nonpoor (93 percent) than for poor (83 percent) families with an aged member.

Pension income was considerably higher among nonpoor than poor aged. Approximately 47 percent of the nonpoor aged in families received pension income, compared to 6 percent of the poor. Since retirement income is linked to prior work experience and earnings, it is likely that most nonpoor aged had higher earnings when they worked than those that are poor.

Income from savings and investments, in the form of interest and dividends, was a significant part of the nonpoor aged families' total income, accounting for 19 cents out of every dollar received.[1] About 79 percent of these families reported income in the form of interest and dividends.

In comparison to the nonpoor, poor families with an aged member relied mainly upon social security and cash public assistance, presumably SSI, for income support. About 29 percent of these poor families received cash public assistance. Among this group, an average of 66 cents out of every dollar came from social security, and 14 cents from cash public assistance. Nearly one-third of these families received food stamps, which on average, added an additional 9 cents to every dollar of income received.

The pattern of income receipt among aged unrelated individuals was, with few exceptions, very similar to that of aged persons in families. Only about 16 percent of nonpoor aged and 5 percent of poor aged unrelated individuals reported income from earnings. Income from interest and dividends was even more important for the nonpoor, accounting for 31 percent of their total income, on average, compared to 4 percent for the poor.

Among poor aged unrelated individuals, the contribution of food stamps to total income was much smaller (about 2 cents for each dollar of cash income) than that of the aged poor living in families (about 9 cents out of each dollar of cash income).

---

[1] Withdrawals from savings are not included as income on the CPS. For the aged in particular, dissaving may provide an important means of maintaining a desired level of consumption.

TABLE 6.—PERCENT OF FAMILIES WITH ANY MEMBER AGE 65 OR OVER WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] 1983

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Number of families (in thousands)	(214)	(270)	(479)	(585)	(699)	(1,526)	(2,553)	(4,824)	(964)	(10,188)
Percent of families	1.9	2.4	4.3	5.2	6.3	13.7	22.9	43.3	8.6	91.4
Earnings	15.2	27.3	23.5	30.1	29.2	30.6	48.8	62.9	22.7	50.3
OASDI, railroad retirement	61.7	83.3	92.8	91.6	96.5	94.8	95.5	90.2	83.2	92.8
Pensions	7.3	5.9	5.9	10.3	20.8	35.7	51.1	55.9	6.2	46.6
Unemployment compensation, workers compensation, veterans payments	7.7	9.5	8.5	13.6	12.7	12.5	12.1	10.0	8.6	11.3
AFDC, SSI, general assistance	17.8	38.3	28.7	27.4	13.9	9.7	5.9	2.5	29.0	6.6
Child support, alimony	5.9	4.7	4.8	4.4	3.9	4.9	4.8	5.2	5.0	4.9
Interest, dividends	29.0	32.2	33.7	42.4	49.4	65.6	79.2	92.7	32.3	79.4
Food stamps	26.2	36.2	29.0	17.8	10.4	3.5	2.4	.4	30.4	3.1

[1] Based on census ("Orshansky") poverty levels.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

TABLE 7.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] FOR FAMILIES WITH ANY MEMBER AGE 65 OR OVER, 1983

	Ratio of total income to poverty threshold								Poor	Nonpoor
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	9.3	11.7	9.7	15.1	16.1	17.2	28.4	42.3	10.2	36.9
OASDI, railroad retirement	57.8	58.1	70.6	61.6	67.1	62.2	44.8	19.8	65.7	29.3
Pensions	2.2	2.7	2.6	3.7	3.8	8.2	12.2	14.0	2.6	12.8
Unemployment compensation, workers compensation, veterans payments	4.8	3.6	2.8	4.0	2.6	2.4	2.1	.8	3.2	1.2
AFDC, SSI, general assistance	16.7	18.2	10.8	10.2	4.9	2.5	.9	.2	13.5	.8
Child support, alimony	2.9	1.1	.8	.5	.6	1.0	.6	.5	1.1	.5
Interest, dividends	6.3	4.6	2.7	4.9	4.9	6.5	11.0	22.5	3.6	18.5
Food stamps [2]	(21.0)	(14.1)	(3.8)	(1.8)	(1.0)	(.3)	(.1)	(.0)	(8.5)	(.1)

---

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps was not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

TABLE 8.—PERCENT OF UNRELATED INDIVIDUALS AGE 65 AND OVER WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] 1983

	Ratio of total income to poverty threshold								Poor	Nonpoor
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Number of unrelated individuals (in thousands)	(272)	(467)	(1,509)	(1,261)	(921)	(1,191)	(1,359)	(1,551)	2,248	6,283
Percent of unrelated individuals	3.2	5.5	17.7	14.8	10.8	14.0	15.9	18.2	26.4	73.6
Earnings	9.1	5.3	4.7	4.9	7.3	13.3	21.5	26.7	5.4	15.8
OASDI, railroad retirement	52.0	89.2	91.6	95.2	96.8	97.9	95.9	88.0	86.3	94.3
Pensions	6.6	7.3	5.0	12.1	22.4	39.6	51.1	51.9	5.7	37.1
Unemployment compensation, workers compensation, veterans payments	1.5	6.8	7.3	6.5	5.7	6.7	4.9	5.2	6.5	5.8
AFDC, SSI, general assistance	9.2	23.4	36.8	14.9	4.6	1.7	.3	.5	30.6	4.2
Child support, alimony	2.0	2.1	.7	1.6	1.6	2.0	3.3	4.4	1.2	2.7
Interest, dividends	36.1	41.5	34.3	52.3	70.2	78.1	90.4	95.2	36.0	78.7
Food stamps	10.0	24.0	30.5	7.7	2.6	1.0	.3	.2	26.6	2.3

---

[1] Based on census ("Orshansky") poverty levels.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

TABLE 9.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] FOR FAMILIES WITH ANY MEMBER AGE 65 OR OVER, 1983

	Ratio of total income to poverty threshold								Poor	Nonpoor
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	6.2	1.2	1.4	1.2	2.8	4.8	9.3	15.4	1.5	10.6
OASDI, railroad retirement	68.9	77.8	76.5	81.2	77.2	64.2	45.8	20.4	76.4	40.8
Pensions	6.1	3.1	1.5	3.1	6.3	11.0	16.7	17.6	1.9	14.5
Unemployment compensation, workers compensation, veterans payments	.3	2.7	2.0	2.2	1.8	2.2	1.6	.7	2.0	1.3
AFDC, SSI, general assistance	5.2	10.6	15.0	6.3	1.2	.5	.1	.0	13.9	.8
Child support, alimony	.6	.5	.1	.5	.3	.4	.8	1.4	.2	1.0
Interest, dividends	12.7	4.0	3.6	5.4	10.5	16.8	25.8	44.6	4.0	31.2
Food stamps [2]	(3.2)	(2.8)	(2.0)	(.4)	(.1)	(.0)	(.0)	(.0)	(2.2)	(.1)

---

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps was not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

Tables 10 through 12 are data from the Survey of Income and Program Participation. Table 10 shows the distribution of total family income which is comprised of social security income. The tables include all families where all members of the family are aged 65 and over including one-member families as well. For example, for elderly families in poverty, social security represents over 90 percent of their income in 44.4 percent of such families. For elderly families above twice poverty, less than 1 percent of such families have 90 percent or more of their income from social security.

Table 11 presents similar information except that it shows the percent of family income derived from supplemental security income (SSI) and social security benefits combined.

Table 12 presents the number of families with different combinations of SSI, social security, and food stamp income. For families in poverty, 87.5 percent receive social security income, 29.9 percent receive SSI income, and 27.8 percent receive food stamp benefits. Only 12.6 percent of elderly families under poverty receive all three types of income.

TABLE 10.—PERCENTAGE DISTRIBUTION—SOCIAL SECURITY INCOME AS A COMPONENT OF TOTAL FAMILY INCOME, BY TOTAL FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL FOR FAMILIES COMPRISED ONLY OF AGED INDIVIDUALS

[In percent]

	Total family money income as a percent of the poverty level					
	Less than 100 percent of poverty	100 to 124.9 percent of poverty	125 to 149.9 percent of poverty	150 to 199.9 percent of poverty	Over 200 percent of poverty	Total
Percent of total family income comprised of social security:						
1 to 24.9	0.0	1.0	0.0	0.0	23.6	9.8
25 to 49.9	4.5	11.2	14.5	14.6	42.7	23.6
50 to 79.9	30.4	30.9	54.5	61.5	26.6	35.6
80 to 89.95	8.2	12.6	14.8	10.7	0.2	6.4
90 or more	[1] 44.4	40.9	14.7	9.9	0.8	18.3
Percent of families with social security income	87.5	96.7	98.5	96.7	94.0	93.7
Percent of families without social security income	12.5	3.3	1.5	3.3	6.0	6.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

[1] The number 44.4 in the first column means that 44.4 percent of families with all individuals in the family over age 65 with total incomes less than poverty depend upon social security benefits for 90 percent or more of their income.

Source: Preliminary data from Survey of Income and Program Participation, Spring 1979 data.

TABLE 11.—PERCENTAGE DISTRIBUTION—SOCIAL SECURITY AND SUPPLEMENTAL SECURITY INCOME AS A COMPONENT, BY TOTAL FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL FOR FAMILIES COMPRISED ONLY OF AGED INDIVIDUALS

[In percent]

	Total family money income as a percent of the poverty level			
	Less than 100 percent of poverty	100 to 124.9 percent of poverty	125 to 149.9 percent of poverty	Total
Percent of total family income comprised by social security and SSI:				
1 to 24.9	1.1	0.2	0.1	8.0
25 to 49.9	1.5	8.3	14.7	22.4
50 to 79.9	18.4	29.7	51.3	32.5
80 to 89.9	6.8	10.3	14.4	5.6
90 or more	[1] 69.0	49.9	18.4	25.4
Percent of families with social security and/or SSI income	96.8	98.4	98.9	93.9
Percent of families without social security or SSI income	3.2	1.6	1.1	6.1
Total	100.0	100.0	100.0	100.0

[1] The number 69.0 in the first column means that 69 percent of families with all individuals in the family over age 65 with total incomes less than poverty depend upon social security and/or SSI benefits for 90 percent or more of their income.

Source: Preliminary data from Survey of Income and Program Participation, Spring 1979 data.

TABLE 12.—RECEIPT OF SOCIAL SECURITY, SUPPLEMENTAL SECURITY INCOME, FOOD STAMPS, AND COMBINATIONS THEREOF, AMONG FAMILIES COMPRISED ONLY OF ELDERLY INDIVIDUALS CLASSIFIED BY FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY THRESHOLD

Type of benefit	Less than 100 percent		100 to 149.9 percent	
	Number (in thousands)	Percent	Number (in thousands)	Percent
Social security	2,400	87.5	2,618	97.3
SSI	820	29.9	1,068	39.7
Food stamps	762	27.8	143	5.3
Social security only[1]	1,574	57.4	2,242	83.3
SSI only[1]	86	3.1	38	1.4
Food stamps only[1]	20	0.7	0	0.0
Social security and food stamps	606	22.1	143	5.0
Social security and SSI	594	21.7	271	10.1
SSI and food stamps	481	17.5	64	2.4
All three income sources	346	12.6	64	2.4
No social security, SSI, or food stamps	105	3.8	38	1.4
Total	2,742		2,691	

[1] Row 4 which is labeled "social security only" means the family only receives social security and does not receive SSI or food stamps. The family could be receiving other types of income. The same is true of row 5 and 6.

Source: Preliminary data from Survey of Income and Program Participation, Spring 1979 data.

Table 13 explores the effectiveness of various income sources in addressing poverty. Families differ markedly by the combinations of income upon which they rely for support. For example, families with an aged member and aged unrelated individuals typically rely upon a combination of income from social security, pensions, returns on investments and saving, as well as earnings. In combination, these sources offer the potential for income support above the poverty threshold. However, as the sole source of income support, none of these sources may be deemed adequate.

One way of assessing the anti-poverty effectiveness of various income sources is to estimate the number of persons who would be counted as poor if a particular source of income were not received. The additional number of persons that are counted as poor provides an estimate of the number of people lifted out of poverty by a particular income source. For example, the effect of social security upon poverty can be seen by comparing the number who would be counted as poor if they did not receive social security, with the number of poor after social security income is counted (column 3 compared to column 1 of table 13).

Another way of assessing the effectiveness of various income sources upon poverty is by estimating the degree to which those sources reduce the gap between a poor family's income and the poverty threshold (bottom 3 rows of table 13). This concept is sometimes known as the "poverty gap" of the "poverty income deficit."

A cash transfer program which is highly targeted on the poor may do little to eliminate poverty—that is, to reduce the number who are counted as poor—but such a program may still have a very real impact by reducing the degree of poverty as viewed in terms of the poverty gap.

Table 13 shows the relative antipoverty effect of various income sources in 1983 upon the aged. For example, the first column shows the number of elderly persons who were poor, and the poverty rate, in 1983. The second column shows how many persons would be poor if they had only earnings and miscellaneous sources of income (interest, dividends, alimony and child support) upon which to depend. Similarly, the third column shows how many persons would be counted as poor if they had all sources of income currently available to them, except for social security and railroad retirement. The relative effect of each source can be seen by comparing the number in poverty under the alternate income definitions with the first column. For purposes of illustration, the cash value of food stamps is also included, even though food stamps are not included as income under the existing official definition of poverty. The last three rows of table 13 show the aggregate poverty gap (in millions of dollars) and average poverty gap[2] per person. The aggregate poverty gap is the amount of dollars that would be required to give all persons in poverty an income equal to the poverty line.

Private and government pensions may be viewed as either deferred compensation, provided by employers, or as savings for retirement. Pension benefits are closely related to the labor market, usually being directly or indirectly related to years of service and wage and salary levels attained when individuals were working. Private and government pensions played an important role in reducing poverty among the aged. In 1983, about one-fifth of total pension benefits went to persons who were poor before they received them. These benefits reduced the incidence of poverty among the aged by about 19 percent, and reduced the aggregate poverty gap by nearly 30 percent.

Social insurance programs provide a second tier of income support, helping to protect covered individuals from loss of work related income resulting from a number of specific risks, such as old age, unemployment, and work related disabilities. Social insurance programs are second only to earnings in terms of their effect upon poverty. Among these programs, social security is the largest. In fiscal year 1983, social security outlays amounted to $172.3 billion. While only about 50 percent of social security payments[3] went to persons who were poor before they received them (the pretransfer poor), social security had the greatest impact upon reducing poverty other than earnings. Social security reduced the aggregate povery gap by nearly 90 percent for persons age 65 and over. Social security income lifted approximately 9.7 million older persons out of poverty. Social security reduced the poverty rate among the aged from 51.0 percent to 14.1 percent—a reduction of 72.3 percent.

---

[2] The average poverty gap per person is the total family poverty gap divided by the number of family members.

[3] Includes railroad retirement.

TABLE 13.—NUMBER OF PERSONS AGE 65 AND OVER IN POVERTY AND THE POVERTY GAP UNDER VARIOUS INCOME CONCEPTS, 1983

	Total income official poverty measure	Only earnings, dividends, interest, and misc. income	Total income less—				Total income plus—food stamps
			Social security, railroad retirement	Pensions	Unemployment compensation, workers compensation, veterans pension	AFDC, SSI, general assistance	
Poor persons age 65 and over (in thousands)	3,711	16,409	13,407	4,575	4,086	4,231	3,552
Poverty rate	14.1	62.4	51.0	17.4	15.5	16.1	13.5
Percentage change			−72.3	−18.9	−9.2	−12.3	−4.3
Poverty gap:							
Persons age 65 and over (in millions)	$4,117	$47,882	$35,134	$5,821	$4,945	$6,472	$3,841
Per elderly poor person [1]	$1,109	$2,918	$2,621	$1,272	$1,210	$1,530	$1,081
Percentage change			−88.3	−29.0	−16.6	−36.4	−6.7

[1] The average poverty gap per poor person is the total family poverty gap divided by the number of family members.

TABLE 14.—PERCENTAGE DISTRIBUTION OF SELECTED SOURCES OF INCOME FOR FAMILIES WHICH INCLUDE AN AGED INDIVIDUAL CLASSIFIED BY FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL

[In percent]

Type of program benefit	Percent received by families with aged individuals	Total family money income as a percent of the poverty level				
		Less than 100	100 to 124.9	125 to 149.9	150 to 199.9	Over 200
Social security	78.9	9.3	9.5	5.6	17.2	58.4
SSI	45.4	50.8	15.9	4.4	15.9	13.0
Food stamps	10.3	71.4	6.7	1.5	3.4	17.0
Veterans	29.8	9.5	8.0	8.5	11.5	62.5
Public pension	52.9	0.7	2.1	1.0	4.5	91.8
Private pension	59.0	0.6	1.3	2.1	12.8	83.2
Earnings	5.3	0.5	1.3	1.0	3.8	93.4
Property income	31.3	0.8	1.2	1.4	3.9	92.7

Note.—This table shows for families with one aged member the percentage of selected sources of income received by families classified by poverty level. The first number in the first column, 78.9 percent, means that 78.9 percent of all social security benefits are given to families that include an aged member. The next number in the first row means 9.3 percent of all social security benefits received by these families are given to those families that have an income of less than 100 percent of the poverty level.

Source: Preliminary data from Survey of Income and Program participation, Spring 1979 data.

TABLE 15.—PERCENTAGE DISTRIBUTION OF SELECTED SOURCES OF INCOME FOR ALL FAMILIES CLASSIFIED BY FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY LEVEL

[In percent]

Type of program benefit	Total	Total family money income as a percent of the poverty level				
		Less than 100	100 to 124.9	125 to 149.9	150 to 199.9	Over 200
Social security	100.0	9.7	8.9	6.5	16.9	58.0
SSI	100.0	45.7	13.7	9.7	13.6	17.3
AFDC	100.0	63.5	10.2	8.0	4.1	14.2
Food stamps	100.0	63.2	12.3	12.2	4.1	8.2
Unemployment compensation	100.0	13.8	2.7	14.7	12.1	56.7
Earnings	100.0	0.8	0.9	1.8	4.6	91.9
Property income	100.0	1.0	0.6	1.0	1.8	95.6
Public pensions	100.0	0.2	1.5	0.8	3.7	93.8
Private pensions	100.0	0.8	1.5	1.9	10.4	85.4

Note.—This table illustrates the percentage of selected sources of income distributed to families classified by poverty level. The second number in the first row means that 9.7 percent of all social security goes to families whose income is less than 100 percent of the poverty level. The last number in the first row says that 58.0 percent of social security benefits go to families that have a total family income of 200 percent or more of the poverty level.

Source: Preminary data from Survey of Income and Program Participation, Spring 1979 data.

Table 16 represents, for families varying by age of head, aggregate family income divided by the number of persons in such families. For example, the table shows that per capita income of families with an aged head was $7,238 in 1980, slightly less than that of all families ($7,753). From 1970 to 1975 real growth in per capita income of families with an aged head was substantially greater than that of all families (11.2 percent versus 7.9 percent). However, from 1975 to 1980 per capita income of aged families rose at a slower rate than that of all families (3.7 percent versus 5.9 percent). Unrelated individuals are considered as families.

Table 17 shows the average income per household member before and after taxes for calendar year 1982. Taxes simulated in the study included Federal income taxes, State individual income taxes, property taxes on owner-occupied housing, and payroll taxes. They do not include sales or excise taxes.

As shown in the table, after-tax income of elderly individuals is exceeded only by households headed by individuals aged 55–64. The amount of taxes paid as a percent of income varied from 13.2 percent of income for household members in households headed by someone age 65 or older to 25.4 percent of income in households where the head was age 55–59. In using income per household member across different family types, it should be noted that most households headed by someone aged 65 or over are one- or two-member households and thus housing consumes a greater proportion of household income.

TABLE 16.—PER CAPITA FAMILY INCOME,[1] BY AGE OF FAMILY HEAD, FOR SELECTED YEARS

[In 1980 dollars]

Age of family head	1970	1975 (percent change: 1970 to 1975)	1980 (percent change: 1975 to 1980)	Percent change: 1970 to 1980
All families	$6,784	$7,320 (7.9)	$7,753 (5.9)	14.3
25 to 34	$6,001	$6,841 (14.0)	$7,172 (4.8)	19.5
35 to 44	$5,827	$6,416 (10.1)	$7,172 (11.8)	23.1
45 to 54	$7,803	$8,180 (4.8)	$8,584 (4.9)	10.0
55 to 64	$9,170	$9,463 (3.2)	$9,984 (5.5)	8.9
65 and over	$6,273	$6,977 (11.2)	$7,238 (3.7)	15.4

[1] Total family income divided by number of family members. Unrelated individuals are considered as families.

Source: Figures compiled by CRS from U.S. Census Bureau Reports (Series P–60).

TABLE 17.—MEAN INCOME BEFORE AND AFTER TAX PER HOUSEHOLD MEMBER, 1982

	Income per household member		Taxes per household member	Taxes as a percent of income
	Before taxes	After taxes		
Age of householder:				
15–24	6,841	5,571	1,270	18.6
25–29	8,163	6,393	1,770	21.7
30–34	8,027	6,158	1,869	23.3
35–39	8,004	6,065	1,939	24.2
40–44	8,446	6,372	2,074	24.6
45–49	9,115	6,866	2,249	24.7
50–54	10,392	7,786	2,606	25.1
55–59	11,529	8,599	2,930	25.4
60–64	10,948	8,505	2,443	22.3
65 and over	9,043	7,845	1,198	13.2
All households	8,901	6,923	1,978	22.2

Source: Estimating After-Tax Money Income Distributions Using Data From the March Current Population Survey, P–23, No. 137, table 3.

Tables 18 through 21 present information on the wealth status of elderly households. Table 18 shows that in 1979 the mean net worth (that is, wealth less unsecured debt) of households headed by an individual over 65 equalled $79,380. The largest source of the net worth of elderly households was ownership of financial assets (35 percent), followed by home equity (32 percent). Business equity, both farm and nonfarm, comprised only 7 percent of the net worth of the elderly. The mean in tables 18 and 19 include those households with zero assets.

Table 19 shows that elderly headed households had mean net worth in excess of that of any other age category, except households headed by an individual between 55 and 64. Within the category of elderly households, those headed by an individual aged 75 and over had significantly less net worth ($65,130) than those headed by an individual between 70 and 74 ($85,480) or an individual between 65 and 69 ($90,040).

Table 20 shows the distribution in 1983 of financial assets and home ownership by age of household head from 25 years of age and older. The mean financial holdings of households headed by an individual between 65 and 74 exceeds that of any other age category. However, mean financial asset holdings of households headed by an individual 75 years of age or older are substantially lower ($37,060) than those of households with an elderly head between 65 and 74 years old ($65,340).

Table 21 shows housing tenure for poor and nonpoor aged families and unrelated individuals. The table shows that the majority of poor families with an aged member (72 percent) and aged poor unrelated individuals (54 percent) owned their own home or lived with relatives in an owner occupied unit. In comparison, 86 percent of aged nonpoor families and 65 percent of aged nonpoor unrelated individuals owned their own home. About one in seven (14 percent) poor aged unrelated individuals reported living in publicly supported housing (either public housing or rent subsidized housing). About 7.6 percent of aged nonpoor unrelated individuals lived in publicly supported housing.

TABLE 18.—PERCENTAGE COMPOSITION OF NET WORTH, MEAN AMOUNTS OF ASSETS, AND PERCENT HOLDING EACH TYPE OF ASSET, 1979

	Percentage composition	Mean amount	Percent holding asset
Age of householder 65 and over:			
Net worth [1]	100	$79,380	100
Wealth	101	79,930	99
Home equity	32	25,110	66
Financial assets	35	28,020	95
Liquid [2]	10	8,020	95
Nonliquid [3]	25	20,000	36
Business equity [4]	7	5,660	4
Other assets	18	14,090	18
Durable goods [5]	9	7,060	98
Unsecured debt [6]	1	540	39
Age of householder 75 and over:			
Net worth [1]	100	66,130	100
Wealth	101	66,530	100
Home equity	30	19,480	59
Financial assets	44	28,610	96
Liquid [2]	12	7,560	96
Nonliquid [3]	32	21,040	31
Business equity [4]	5	3,400	3
Other assets	13	8,640	16
Durable goods [5]	8	5,410	99
Unsecured debt [6]	1	400	28

[1] Net worth is defined as wealth minus unsecured debt.

[2] Liquid financial assets include cash, checking accounts, passbook savings accounts, U.S. savings bonds.

[3] Nonliquid financial assets include bonds, CDs, stocks, mutual fund shares.

[4] Business equity: farm and nonfarm.

[5] Durable goods include equity in vehicles plus market value of household durables.

[6] Unsecured debt includes installment and noninstallment debt, unpaid medical bills, and educational loans.

Source: Daniel B. Radner, "The Wealth and Income of Aged Households," Forthcoming in the 1984 Amercian Statistical Association Proceedings, Social Statistics Section. Data developed from 1979 Income Survey Development Program file.

TABLE 19.—MEAN AND MEDIAN NET WORTH, BY AGE OF HOUSEHOLDER, 1979

	Net worth [1]	
	Mean	Median
Age of householder:		
All ages	$62,430	$25,770
Under 25	8,880	3,450
25 to 34	24,520	12,110
35 to 44	64,950	29,820
45 to 54	79,120	39,180
55 to 64	105,740	51,440
65 and over	79,380	38,720
65 to 69	90,040	47,300
70 to 74	85,480	45,440
75 and over	65,130	28,410

[1] Net worth is defined as wealth minus unsecured debt.

Source: Daniel B. Radner, "The Wealth and Income of Aged Households," Forthcoming in the 1984 American Statistical Association Proceedings, Social Statistics Section. Data developed from 1979 Income Survey Development Program File.

TABLE 20.—FINANCIAL ASSETS AND HOMEOWNERSHIP OF HOUSEHOLDS HOLDING SUCH ASSETS, BY AGE GROUP, 1983

Age of head (years)	Percent of households owning liquid assets	Liquid assets of those holding such assets [1]		Total financial assets of households holding such assets [2]		Percent of households with homeownership	Net equity of homeowner [3]	
		Mean	Median	Mean	Median		Mean	Median
Under 25	81	$1,970	$600	$2,650	$750	10	$18,870	$13,780
25 to 34	87	4,270	1,200	7,960	1,510	40	32,640	27,770
35 to 44	91	8,910	3,000	14,410	3,750	66	52,070	40,600
45 to 54	89	14,830	3,310	23,010	4,130	75	64,470	50,000
55 to 64	91	25,440	7,430	54,950	9,340	73	73,580	55,000
65 to 74	88	30,670	9,680	65,340	11,400	69	63,670	45,000
75 and over	86	26,480	7,890	37,060	10,350	57	47,760	40,000
45 and over:								
Head in labor force	93	20,960	6,230	42,790	8,200	76	68,390	53,770
Head retired	86	28,200	6,730	50,170	8,750	69	62,460	44,170

[1] Liquid assets include checking accounts, savings accounts, money market accounts, certificates of deposit, IRA and Keogh accounts, and savings bonds.

[2] Financial assets include liquid assets plus stocks, other bonds, nontaxable holdings (municipal bonds and shares in certain mutual funds), and trusts.

[3] Nonfarm homeowners.

Source: Economic Report of the President, 1985, page 169. Data supplied by Board of Governors of the Federal Reserve System.

TABLE 21.—HOUSING TENURE OF AGED, FAMILIES, AND UNRELATED INDIVIDUALS BY FAMILY TYPE AND POVERTY STATUS, 1982

	Total	Percent of total				
		Own housing	No cash rent	Rent housing		
				Total	Publicly supported	Not publicly supported
Any member age 65 or over:						
In families:						
Total	11,313	85.0	1.4	13.6	1.8	11.8
Poor	1,022	71.5	3.1	25.3	6.4	18.9
Nonpoor	10,291	86.3	1.2	12.5	1.4	11.1
Unrelated individuals:						
Total	8,406	61.7	4.1	34.2	9.3	24.8
Poor	2,275	53.6	7.2	39.3	14.1	25.2
Nonpoor	6,131	64.7	3.0	32.3	7.6	24.7

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

Tables 22 through 24 provide information on the economic status of the newly retired. Data for these tables are taken from the Social Security Administration's New Beneficiary Survey of 1982. New retirees in 1982 had their prime earning years during the relatively affluent decades of the 1950's, 1960's, and 1970's. Compared with those who retired in the 1960's and 1970's, the 1982 retirees have enjoyed higher earnings which has allowed them to save more and retire earlier. Generally they have experienced greater pension coverage and report a better general level of health.

Table 22 shows the percent of new retired workers receiving income from 4 major income sources and the median monthly income from those sources for those receiving such income. A relatively high proportion of the new retirees had income from pensions (56 percent of the married men and their wives and 42 percent of the unmarried persons). A large fraction had income from earnings (44 percent of the married men and their wives and 27 percent of the unmarried persons).[4]

Tables 23 and 24 report on the health status of new retirees. About two-thirds of the people receiving a first Social Security retired worker benefit between June 1980 and May 1981 reported in late 1982 that they had no health related work limitation. Approximately half the remaining beneficiaries (18 percent of the total) reported they were unable to work at all. Those receiving their first Social Security benefit at age 62 were more likely to report on inability to work than those first receiving them at older ages. Since 1969, the proportion of newly retired men reporting no health related work limitations has increased by a third (from 45 percent in

---

[4] For further information on the incomes of new retirees see Maxfield and Reno, Social Security Bulletin, January 1985.

1969 to 63 percent in 1982). However, the proportion reporting they are unable to work at all has remained constant at 18 percent over this period. 1969 data on the health of women retired workers is not available.[5]

TABLE 22.—1982 MONTHLY INCOME FROM MAJOR INCOME SOURCES FOR PERSONS WHO FIRST RECEIVED SOCIAL SECURITY RETIRED WORKER BENEFITS BETWEEN JUNE 1980 AND MAY 1981

	Percent receiving	Median monthly income (for recipients)
Married men and their wives:		
Social Security	98.3	$646
Earnings	43.7	617
Pensions	55.8	490
Asset income	83.0	180
Total income	100.0	1,511
Total number (thousands)	580.0	
Unmarried men and women:		
Social Security	97.0	421
Earnings	27.0	392
Pensions	42.4	291
Asset income	69.1	99
Total income	100.0	775
Total number (thousands)	295.9	

Source: Social Security Administration's New Beneficiary Survey, 1982.

TABLE 23.—PERCENT OF NEW RETIRED WORKER BENEFICIARIES REPORTING HEALTH RELATED WORK LIMITATIONS BY AGE AT FIRST BENEFIT RECEIPT, 1982

	Men			Women		
	Total	Age 62	Age 63 or older	Total	Age 62	Age 63 or older
Total percent	100	100	100	100	100	100
No work limitation	64	57	70	69	66	73
Some work limitation	18	21	16	13	14	12
Unable to work	18	22	14	18	20	15

Source: Social Security Administration's New Beneficiary Survey, 1982.

---

[5] For further, information on the health status of new retirees see Packard, Social Security Bulletin, February 1985.

TABLE 24.—PERCENT OF NEWLY RETIRED MEN REPORTING HEALTH RELATED WORK LIMITATIONS BY AGE AT FIRST BENEFIT RECEIPT, 1969 AND 1982

	1969			1982		
	Total	Age 62	Age 63 to 64	Total	Age 62	Age 63 to 64
Total percent	100	100	100	100	100	100
No work limitation	45	39	53	63	57	69
Some work limitation	31	33	28	19	21	17
Unable to work	19	22	14	18	22	13
Nonresponse	5	7	4	0	0	0

Sources: Social Security Administration's Survey of Newly Entitled Beneficiaries, 1968–70 and New Beneficiary Survey, 1982.

Section 3. Disability Insurance Program

The disability insurance (DI) program provides monthly cash benefits for workers under age 65 and their dependents. Benefits for the disabled were provided to disabled workers age 50 or older by the 1956 Social Security Amendments; benefits for the dependents of disabled workers were provided by the 1958 Social Security Amendments. Benefits to disabled workers under age 50 were provided by the 1960 amendments.

GENERAL

Many provisions of the disability insurance (DI) program are identical to those of the old age and survivors insurance (OASI) program. For example, all workers who are covered by OASI are also covered by DI. Contributions are made under the same provision of the Internal Revenue Code and are made on the same wage base.

A portion of the OASDI taxes is allocated to the Disability Insurance Trust Fund which is the source of payment for monthly benefits to the disabled worker and their dependents and for administrative expenses of the program. In addition, the revenue derived from the taxation of disability benefits is also deposited in the trust fund.

The most significant differences between the two programs are in the provisions for insured status and in the administration of the program. The DI program involves both Federal and State government. These differences are primarily a result of the different nature of the event insured. The OASI program insures a worker, his dependents and survivors against loss of income due to the worker's retirement or death. The DI program insures against the loss of income due to the worker's physical or mental disability.

BENEFITS

Summary

Monthly cash benefits are paid and computed generally on the same basis as in the OASI program. Benefit amounts are related to the past earnings of the insured worker.

In December 1984 there were 3.8 million DI beneficiaries in current-payment status. The total monthly benefits paid out were $1.39 billion. Table 1 summarizes various types of beneficiaries of the DI program currently receiving benefits, and average benefit amounts and the number of new awards during 1984.

TABLE 1.—DISABILITY CASH BENEFITS: NUMBER IN CURRENT PAYMENT STATUS AND AVERAGE BENEFIT AMOUNT (DECEMBER 1984) AND NUMBER OF BENEFITS AWARDED DURING THE YEAR AND AVERAGE BENEFIT AMOUNT, 1984

	Current payment		New awards	
	Number (in thousands)	Average payment	Number (in thousands)	Average payment
Disabled workers	2,597	$470.67	357	$458.60
Wives and husbands of workers	304	130.92	82	124.16
Children of disabled workers	921	138.51	241	128.38

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

Description of major benefit types

Disabled-worker (disability insurance) benefit.—A monthly benefit payable to a disabled worker under age 65 insured for disability.

Spouses' benefit.—Monthly benefit payable to a spouse or divorced spouse of a disabled worker under one of the following conditions: (1) wife or husband is aged 62 or older or has 1 or more entitled children of the worker under age 16 in his or her care; or (2) divorced wife (husband) is aged 62 or older and her (his) marriage to worker has lasted 10 years (20 years for benefits paid or applications filed before January 1979) before divorce became final.

Child's benefit.—A monthly benefit payable to an unmarried child or eligible grandchild of a disabled worker.

Disabled child's benefit.—A monthly benefit payable to a disabled person aged 18 or over—a dependent son or daughter or eligible grandson or granddaughter of a retired, deceased, or disabled worker—whose disability began before age 22.

Definition of disability

Generally, disability is defined as an inability to engage in any substantial gainful activity by reason of a physical or mental impairment. The impairment must be medically determinable and expected to last for not less than 12 months or to result in death. A person (other than a disabled widow or widower) may be determined to be disabled only if due to this impairment he is unable to engage in any kind of substantial gainful work, considering his age, education, and work experience, which exists in the national economy even though such work does not exist in the immediate area in which he lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied for work.

There are special definition and eligibility requirements for persons who are blind.

A widow (or widower) can be determined to be disabled only if a physical or mental impairment exists of such a level of severity that makes it impossible to perform any gainful work (rather than substantial gainful work).

Waiting period

An initial 5-month waiting period is required before disability insurance benefits will be paid. Benefits are payable for the 6th month. However, benefits may be paid for the 1st full month of disability to a worker who becomes disabled within 60 months (for a disabled widow or widower the period is 84 months) after termination of disability insurance benefits after an earlier period of disability.

Insured status

Workers are *insured for disability* if they are fully insured and, except for persons who are blind or disabled before age 31, have a total of at least 20 quarters of coverage during the 40-quarter period ending with the quarter in which the worker became disabled. Workers who are disabled before age 31 must have total quarters of coverage equal to half the calendar quarters which have elapsed since the worker reached age 21, ending in the quarter in which the worker became disabled. However, a minimum of 6 quarters is required.

BENEFIT COMPUTATION

Disability benefits are computed in the same manner as old age and survivors benefits (the worker is presumed to be age 62 in the month he becomes disabled) except that the number of years of earnings which is excluded when determining the benefit amount is less than 5 for workers under age 47. The number of drop-out years allowed increases with the age of the insured worker at disablement. The amount of the monthly benefit is based on the insured worker's primary insurance amount (PIA). The presumption of age 62 does not result in an actuarial reduction.

The following table lists major disability benefits with the percentage of the insured worker's PIA.

TYPE OF MONTHLY BENEFIT

	Percent of PIA
Disabled worker (any age)	100
Dependents of disabled worker: [1] Wife or husband (age 62), mother, father, children and grandchildren	50
Survivors: [1] Disabled (age 50–59), widows or widowers	71.5

[1] Subject to maximum family benefit limitation.

Substantial gainful activity

The Secretary of HHS[1] has specific regulatory authority to prescribe the criteria for determining when earnings derived from employment demonstrate an individual's ability to engage in substantial gainful activity (SGA).

---

[1] Throughout the remainder of this section when Secretary is used, it is the Secretary of Health and Human Services.

The Secretary has published regulations specifying the monetary amounts which indicate substantial gainful activity. At the present time the SGA earnings level is $300 a month (net of impairment-related work expenses).

Trial work period

A 24-month "trial work period" is provided for disabled beneficiaries who attempt to work, during which their benefits will not be terminated because of work. During the second 12 months of this period, benefits are suspended for any month during which the individual is engaged in substantial gainful activity (SGA), but his entitlement to benefits is not terminated. Medicare benefits may be continued for 24 months after the expiration of the trial work period.

If an individual medically recovers to the extent that he no longer meets the definition of disability, benefits are terminated regardless of the "trial work" provision. Only one trial work period is permitted for each period of disability. Beneficiaries who qualified for benefits without a waiting period are not entitled to a trial work period. The Secretary of HHS has provided by regulation that earnings of $75 a month will constitute a month of "trial work."

Maximum family benefit

The maximum monthly amount of family benefits which is payable on a disabled worker's earnings record for workers who first become entitled after June 1980, is the smaller of 85 percent of the worker's average indexed monthly earnings or 150 percent of the worker's primary insurance amount. However, in no case can the benefit be reduced below 100 percent of the worker's primary insurance amount.

Offset for other public disability benefits

When a disabled worker under age 65 qualifies on the basis of total or partial disability (whether or not permanent) for benefits which are provided by Federal, State and local governments and worker's compensation, the social security benefits payable to him and his family are reduced by the amount, if any, that the total monthly benefits payable under the two or more programs exceed 80 percent of his average current earnings before he became disabled. Needs-tested benefits, Veterans' Administration disability benefits, and benefits based on public employment covered by social security are not subject to the provision. A worker's average current earnings for this purpose are the larger of (a) the average monthly earnings used for computing his social security benefits, or (b) his average monthly earnings in employment or self-employment covered by social security during the 5 consecutive years of highest covered earnings after 1950, or (c) the average monthly earnings during the calendar year of highest earnings during a period consisting of the year in which disability began and the preceding 5 years without regard to the limitations which specify a maximum amount of earnings creditable for social security benefits. The combined payments after the reduction are never less than the total amount of the DI benefits payable before the reduction. In addition, the social security benefit is increased by the full amount of the cost-of-living increase as applied to the unreduced benefit. Every 3 years the original amount of benefits subject to reduction is redetermined to reflect changes in average wage levels. If increases in the average national wages would result in a higher benefit than that payable based on the original computation, the benefit is increased effective January of the redetermination year.

The offset begins in the month during which concurrent entitlement begins under a Federal or State law.

The offset of the social security disability benefit will not be made if the State worker's compensation law provides for an offset against social security disability benefits. However, this waiver of the offset would only apply where the State program began offsetting on or before February 18, 1981.

DETERMINATION OF DISABILITY

State agency determinations of disability

Disability determinations are made by State agencies who agree to make such determinations and substantially comply with the regulations of the Secretary. The Secretary is required to issue regulations specifying, in such detail as he deems appropriate, performance standards and administrative requirements and procedures to be followed in performing the disability determination function "in order to assure effective and uniform administration of the disability insurance program through the United States." Certain operational areas are cited as "examples" of what the regulations may specify. These include such items as the nature of the administrative structure, the physical location of and relationship among agency staff units, performance criteria and fiscal control procedures.

The law also provides that if the Secretary finds that a State agency is substantially failing to make disability determinations consistent with his regulations, the Secretary shall, not earlier than 180 days following his findings, terminate State administration and make the determinations himself. The law also allows for termination by the State. The State would be required to continue to make disability determinations for not less than 180 days after notifying the Secretary of its intent to terminate. Thereafter, the Secretary would be required to make the determinations.

Determining disability: Application of law and regulations

The adjudication of claims is accomplished on a sequential basis. Whether the individual is currently employed and the amount of earnings are the first factors considered. If the individual is earning the amount that determines ability to engage in "substantial gainful activity" (SGA, now $300 a month) he is determined not disabled. If he is making less than this amount or not working at all, the severity and duration of the impairment are explored. If the severity is determined to be "not severe" the individual is denied right at that point. However, if the impairment is "severe," a determination is made whether the impairment "meets" or "equals" the level of severity spelled out in the regulations[2] and whether it will last for 12 months. If it neither "meets" nor "equals" the specified standard (which will result in an allowance) but meets the 12-month duration rule, a determination is then made whether the claimant is able to carry out his former occupation. If he can he is denied benefits, but if he cannot, the non-medical factors come into play.

At this stage, because of a judicial opinion and subsequent administrative and legislative ratification, the burden of proof switches to the Government to show that the individual can, considering his impairment, age, education, and work experience, engage in some other kind of substantial gainful activity which exists in a national economy. Such work, however, does not have to exist in the immediate area in which he lives and a specific job vacancy does not have to be available to him. Work in the national economy is defined in the law as work which exists in significant numbers either in the region where such individual lives or in several regions of the country.

In the face of a growing number of nonmedical allowances and a declining number of cases where the medical listings were met, the Social Security Administration in 1976 developed a vocational "grid" designed to reduce the subjectivity and lack of uniformity in applying the vocational factor. The grid regulations were designed to formularize certain worker characteristics such as age, education, and past work experience, in relation to the individual's residual functional capacity (RFC) to perform work-related physical and mental activities. If the claimant has a particular level of residual work capability—characterized by the terms Sedentary, Light, Medium, Heavy and Very Heavy—an automatic finding of "disabled" or "not disabled" is required when applied to various combinations of age, education, and work experience.

The regulations were finally promulgated in February 1979 after some lengthy administrative hearings and consideration. In terms of program experience during the period 1975–1983, there has been a decline at the State agency level in the number of non-medical allowances and a dramatic increase in the percentage of allowed cases which "met" the medical listings. Those percentages are presented in table 2. Moreover, there was an equally dramatic increase in the number of denials on the basis of "impairment not severe" which under the sequential method of determining disability would exclude the consideration of the non-medical factors. Table 3 gives a percentage distribution of the basis for denials at the initial determination of disability at the State agency level for fiscal years 1975 to 1983.

---

[2] The Listing of Impairments contains over 100 examples of medical conditions that would ordinarily prevent an individual from engaging in any gainful activity. Each listing describes a degree of severity such that an individual who is not working and has such an impairment is considered unable to work by reason of the medical impairment. The listing describes specific medically acceptable clinical and laboratory findings and signs which establish the severity of the impairments. An impairment or combination of impairments is said to "equal the listings" if the medical findings for the impairment are at least equivalent in severity and duration to the listed findings of a listed impairment.

TABLE 2.—BASIS FOR TITLE II ALLOWANCES—NATIONAL FIGURES: INITIAL WORKER DETERMINATION, FISCAL YEARS 1975–84

[In percent]

Fiscal year	Meets listing	Equals listing	Medical and vocational considerations
1975	29.4	43.9	26.7
1976	29.0	45.1	25.9
1977	34.2	41.9	23.9
1978	45.6	31.9	22.5
1979	55.1	22.7	22.1
1980	57.9	16.2	25.9
1981	63.9	12.3	23.8
1982	72.7	8.6	18.7
1983	74.0	8.3	17.7
1984	66.7	8.7	24.6

Source: Office of Disability, Social Security Administration.

TABLE 3.—BASIS FOR TITLE II DISALLOWANCES AND DENIALS: INITIAL WORK DETERMINATION, FISCAL YEARS 1975–84

[In percent: fiscal years]

	Duration	Slight impairment	Able to perform usual work	Able to perform other work	Engaging in SGA	Failure to cooperate	Failure to appear	Other
1975	19.6	8.4	44.3	18.2	1.0	5.1	1.8	1.6
1976	19.9	10.8	41.9	20.1	.4	4.8	1.8	.3
1977	21.2	24.8	30.0	15.7	.5	4.9	1.8	1.1
1978	21.1	31.8	25.0	14.6	.5	4.1	1.9	1.0
1979	20.0	41.6	21.5	12.5	.4	.9	2.3	.8
1980	20.6	39.0	23.7	12.7		1.9	1.3	.7
1981	17.5	43.2	18.7	11.3	2.0		2.6	4.8
1982	16.4	38.9	22.6	14.1	1.1		2.8	3.6
1983	16.9	39.4	22.0	14.3	1.0		3.0	3.4
1984	14.8	34.3	23.8	16.7	1.0	2.0	2.3	5.1

Source: Office of Disability, Social Security Administration.

A widow or widower may qualify for benefits on the deceased spouse's work record at age 50 and over if he or she has "physical or mental impairments" at "a level of severity which under regulations prescribed by the Secretary is deemed to be sufficient to preclude an individual from engaging in any gainful activity." The regulations of the Secretary state that to qualify for disabled widows' benefits a person must have impairments which "meet the listings" or "are medically equivalent to those for any impairment shown there." Thus, vocational factors are not taken into account in determining the disability of a widow or widower.

Federal review of State determination

The Secretary may, on his own motion, review any determination by a State agency.

The law requires that the following minimum number of allowances (or continuances) of disability shall be reviewed by the Secretary:

	Percent [1]
Decisions made in fiscal year:	
1981	15
1982	35
1983 and thereafter	65

[1] Minimum percent reviewed.

Periodic review of individuals receiving disability benefits

The 1980 Disability Amendments required that the Social Security Administration reexamine every individual on the rolls who is determined to be nonpermanently disabled for benefit eligibility at least once every 3 years. Where there is a finding of permanency, the Secretary may reexamine at such times as is determined to be appropriate. These reviews are in addition to the administrative procedures existing prior to the 1980 amendments which determined continued eligibility for disability benefits. Legislation enacted in late 1982 provided authority for the Secretary to slow down the rate of continuing eligibility reviews mandated by the 1980 amendments.

Medical improvement standard

The 1984 Disability Benefits Reform Act amended the law to require that in continuing eligibility review cases, benefits may be terminated only if the Secretary finds that there has been medical improvement in the person's condition and that the person is now able to engage in substantial gainful activity. There are several statutory exceptions to this standard, which is described in greater detail in the "Recent Legislation" section of this chapter.

Medical evidence

An individual is not considered under a disability unless he furnishes such medical and other evidence as the Secretary may require.

Under the law, the Secretary will generally reimburse physicians or hospitals for supplying medical evidence in support of claims for social security disability insurance benefits. The Secretary also pays for medical examinations if this is needed to adjudicate the claim.

Attorney's fees and representation

At the administrative level the Secretary of HHS is authorized to fix a reasonable fee for the services provided before the Social Security Administration for a Social Security applicant by an attorney and to pay such attorney's fee out of the applicant's past-due benefits. The amount that can be paid out of past-due benefits is limited to the smaller of (a) 25 percent of the past-due benefits; (b) the fee fixed by the Secretary; or (c) an amount agreed to by the applicant and the attorney. The Secretary certifies for payment to the attorney the fee so fixed.

A court which renders a decision favorable to a claimant for social security benefits is permitted to set a reasonable fee for the attorney who represented the claimant before the court. The fee cannot exceed 25 percent of the past-due benefits which result from the court's decision. The Secretary may certify for payments to the attorney, out of the total of the past-due benefits, the amount of the fee set by the court.

VOCATIONAL REHABILITATION

The Social Security Act requires that disabled persons applying for a determination of disability be promptly referred to State vocational rehabilitation agencies for necessary rehabilitation services. The act provided for withholding of benefits for refusal, without good cause, to accept rehabilitation services available under a State plan approved under the Vocational Rehabilitation Act in such amounts as the Secretary shall determine.

Public Law 97-35 eliminated reimbursement from the trust funds to the State vocational rehabilitation agencies for rehabilitation services except in cases where the services have resulted in the beneficiary's performance of substantial gainful activity (SGA) for a continuous period of at least 9 months. Such a 9-month period could begin while the individual is under a vocational rehabilitation program and may also coincide with the trial work period or the individual's waiting period for benefits. The services must be performed under a State plan for vocational rehabilitation services under title I of the Rehabilitation Act. In the case of any State which is unwilling to participate or which does not have a plan which meets the requirements of the Vocational Rehabilitation Act, the Commissioner of Social Security may provide such services by agreement or contract with other public or private agencies, organizations, institutions or individuals. The determination that the VR services contributed to the successful return of the individual to SGA and the determination of the amount of costs to be reimbursed shall be made by the Commissioner of Social Security in accordance with criteria formulated by him. Payments under this provision shall be made in advance or by way of reimbursement, with necessary adjustments for overpayments or underpayments.

DISABILITY CLAIMS AND APPEALS STRUCTURE

The social security appeals and case review process is a complex administrative structure which is inextricably linked with the disability determination process. Since about 97 percent of the hearing requests involve disability claims (both social security and SSI), the process described will be for that type of claim. The application for disability benefits is made at the Federal social security district office where the claimant is interviewed and the sources of medical evidence are recorded. After determining whether the applicant meets the insured status requirements, the case is then sent to the State agency which, operating as an agent of the Social Security Administration, makes the initial determination of disability. If a claimant or terminated beneficiary is dissatisfied with an initial denial or termination of disability benefits by the State agency, he can request a reconsideration within 60 days of notice of denial. The reconsideration is also carried out by the State agency but by personnel other than those who made the initial determination. If upon reconsideration the claimant is again denied benefits he will be given a hearing before an administrative law judge (ALJ) providing he files a request within 60 days of notice of denial. If the claim is denied by the ALJ, the claimant has 60 days to request review by the Appeals Council. The Appeals Council may also, on its own motion, review a decision within 90 days of the ALJ's decision. The 1980 Disability Amendments required the Secretary to review a percentage of ALJ hearing decisions, and this review is being conducted by the Appeals Council.

The Appeals Council may review, affirm, modify or reverse the decision of the ALJ, or it may remand it to the ALJ for further development. The claimant is notified in writing of the final action of the Appeals Council, and is informed of his right to obtain further review by commencing a civil action within 60 days in a United States district court.

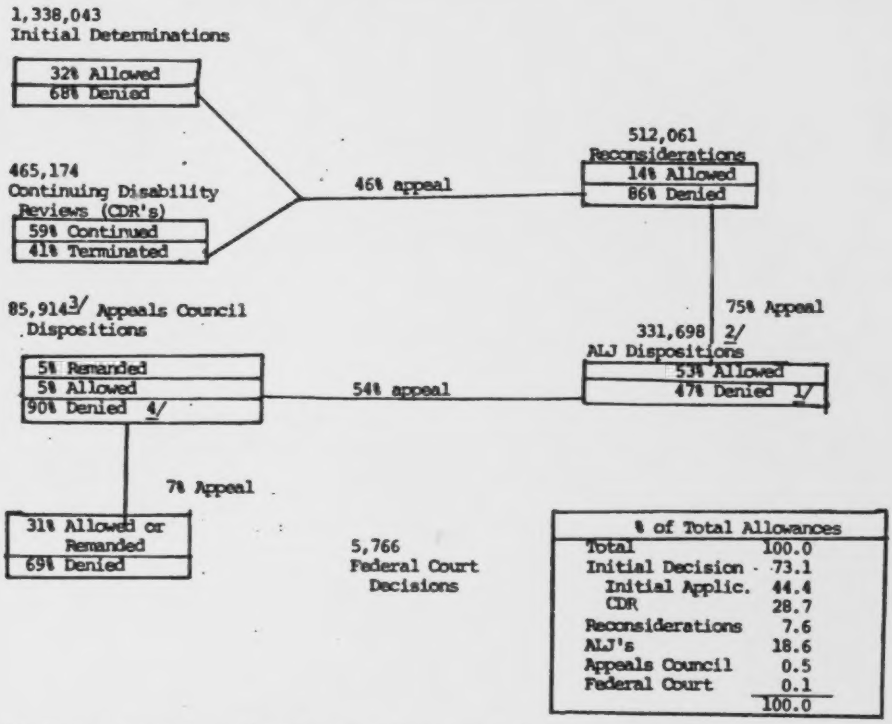
Under current law, as amended by the 1984 Disability Benefits Reform Act, benefits of terminated DI beneficiaries are continued through the appeals process. If the termination decision is upheld, the beneficiary must repay these benefits.

The magnitude and complexity of the disability determination and appeals process is shown in table 4. Of the 1,338,043 initial disability determination decisions by the State agency in fiscal year 1983, some 32 percent were allowed.

Actually the process is more complex than an initial glance at table 4 would indicate. For example, in fiscal year 1982, 71,450 initial allowances were selected for a Federal preeffectuation review after which 6,502 cases were returned to the State agencies. Ultimately 4,155 of these initial decisions were reversed. Thus, the Federal review process examined approximately 30 percent of initial allowances. A similar process also takes place for the continuing disability allowances and the reconsiderations which result in an allowance. As table 4 shows, out of the total 1,803,217 initial and continuing disability determinations in 1983, 61 percent were initially denied. Fewer than half of these appealed their denials to the reconsideration level, and 75 percent of those denied at the reconsideration level appealed to the administrative law judge hearing level. As a result, after all levels of appeal had been exhausted, only about 22.5 percent of those denied initially (either on initial application or continuing eligibility review) had benefits granted to them through the appeals process.

TABLE 4.—DISABILITY DETERMINATIONS AND APPEALS, FISCAL YEAR 1983 [1]

Titles II and XVI
Workers, Widow(er)s, and Children


1,338,043
Initial Determinations
32% Allowed
68% Denied
465,174
Continuing Disability Reviews (CDR's)
59% Continued
41% Terminated
46% appeal
512,061
Reconsiderations
14% Allowed
86% Denied
75% Appeal
331,698 2/
ALJ Dispositions
53% Allowed
47% Denied 1/
54% appeal
85,914 3/ Appeals Council Dispositions
5% Remanded
5% Allowed
90% Denied 4/
7% Appeal
31% Allowed or Remanded
69% Denied
5,766
Federal Court Decisions

% of Total Allowances	
Total	100.0
Initial Decision	73.1
Initial Applic.	44.4
CDR	28.7
Reconsiderations	7.6
ALJ's	18.6
Appeals Council	0.5
Federal Court	0.1
	100.0

1/ Rates of appeals are based on total decisions made and not on receipt of appeals during the fiscal year.

2/ Includes Title II, Title XVI and concurrent Title II/XVI. Includes Continuing Disability Reviews (CDRs).

3/ Includes CDRs and own motion cases.

4/ Includes dismissals.

Table 5 presents information for fiscal years 1979 through 1984 of the number of cases which are reviewed and reversed at the administrative law judge level. Approximately 53.0 percent of initial denials were reversed in 1983.

TABLE 5.—ADMINISTRATIVE LAW JUDGE REVERSAL RATES—DISABILITY INSURANCE [1] INITIAL DENIALS AND TERMINATIONS,[2] FISCAL YEARS 1979–84

	Dismissed	Affirmed	Reversed	Total	Percent reversed
Fiscal year 1979:					
Initial denials	6,332	31,485	48,934	86,751	56.4
Terminations	1,401	4,078	8,052	13,531	59.5
Fiscal year 1980:					
Initial denials	7,093	31,703	56,733	95,529	59.4
Terminations	1,431	4,197	9,909	15,537	63.8
Fiscal year 1981:					
Initial denials	15,141	59,930	98,129	172,200	56.7
Terminations	2,623	6,945	16,685	26,253	63.6
Fiscal year 1982:					
Initial denials	15,403	67,481	91,865	174,749	52.6
Terminations	4,670	17,502	37,306	59,478	62.7
Fiscal year 1983:					
Initial denials	14,334	65,626	79,427	159,387	49.8
Terminations	9,247	37,284	73,821	120,352	61.3
Fiscal year 1984:					
Initial denials	15,075	63,381	88,301	166,757	53.0
Terminations	25,681	22,590	56,327	104,598	53.9

[1] Includes title II and concurrent title II/title XVI disability cases.

[2] Includes all termination cases regardless of the basis for termination.

Source: Office of Hearings and Appeals, Social Security Administration.

Table 6 presents information on the number of continuing disability investigations which have taken place from fiscal year 1977 to 1984. From 1977 to 1981 the number of cases reviewed ranged between 2.4 percent to 5.0 percent of the total caseload. In fiscal year 1983, the percentage of cases reviewed climbed to 13.8 percent. The percent of cases which were terminated has held fairly constant at around 42 to 45 percent over this time period. This implies that the number of cases terminated has increased substantially. In fiscal year 1983, benefits were terminated for 182,074 disabled workers as compared with 80,956 2 years earlier. These beneficiaries have the ability to appeal and so these numbers should not be construed as the ultimate outcome of the continuing disability investigation process. As noted, the sharp decline in the number of reviews in fiscal year 1984 reflects the Secretary's moratorium on reviews pending enactment of the legislation in 1984. The very low percentage of cessations in that period may also reflect uncertainty about the nature of the new standards to be provided in the legislation.

TABLE 6.—CONTINUING DISABILITY INVESTIGATIONS (CDI) INITIAL DECISIONS: TITLE II DISABLED WORKERS, DISABLED WIDOWS AND WIDOWERS, AND DISABLED CHILDREN CESSATIONS AND CONTINUATIONS, FISCAL YEARS 1977–84

	Cessations		Continuations		Total cases		
	Number	Percent	Number	Percent	Cessations and continuations	Total disabled persons [1]	Percent reviewed
1977	41,475	38.7	65,745	61.3	107,220	3,322,230	3.2
1978	38,847	46.4	44,804	53.6	83,651	3,418,931	2.4
1979	45,216	48.1	48,868	51.9	94,084	3,435,038	2.7
1980	44,273	46.8	50,227	53.2	94,550	3,433,695	2.8
1981	80,956	47.9	87,966	52.1	168,922	3,387,574	5.0
1982	179,857	44.8	221,325	55.2	401,182	3,224,136	12.4
1983	182,074	41.7	254,424	58.3	436,498	3,172,392	13.8
1984 [2]	31,927	24.6	97,752	75.4	129,679	3,200,096	4.1

[1] In force at end of fiscal year.

[2] The decline in the number of reviews in 1984 was due to the national moratorium on reviews pending the new legislation with revised criteria for CDI's enacted in 1984.

Source: Office of Disability Programs, Social Security Administration.

Recent Experience in the Disability Program

In the past several years, there has been a significant decline in the number of beneficiaries (from 4.868 million in 1978 to 3.813 million in December 1983). This is a decline of 21.7 percent. The number of awards has declined from 592,049 in 1975 to approximately 298,531 in 1982. This number increased slightly in 1983 to 311,491 awards. The incidence of disability (number of awards per 1,000 insured workers) fell from an all-time high of 7.1 in 1975 to 2.9 in 1982, the lowest incidence rate in the history of the program, and now stands at 3.0 for 1983. (See table 7.)

Table 8 shows the number of disability insurance beneficiaries for selected years.

TABLE 7.—DISABLED WORKERS' APPLICATIONS, AWARDS AND RATIO OF AWARDS TO APPLICATIONS AND AWARDS PER 1,000 INSURED WORKERS FOR 1960, 1965, 1970 TO 1984

	Number of applications (in thousands)	Total awards	Total awards divided by total applications (percent)	Awards per 1,000 insured workers
1960	418.6	207,805	50	4.5
1965	532.9	253,499	48	4.7
1970	868.2	350,384	40	4.8
1971	924.4	415,897	45	5.6
1972	947.8	455,438	48	6.0
1973	1,066.9	491,616	46	6.3
1974	1,330.2	535,977	40	6.7
1975	1,285.3	592,049	46	7.1
1976	1,232.2	551,460	45	6.5
1977	1,235.2	568,874	46	6.5
1978	1,184.7	464,415	39	5.2
1979	1,187.8	416,713	35	4.4
1980	1,262.3	396,559	31	4.0
1981	1,161.3	345,254	30	3.4
1982	1,020.0	298,531	29	2.9
1983	1,017.7	311,491	31	3.0
1984 [1]	1,045.0	357,129	34	3.4

[1] Preliminary annual number based on 9 months of actual data. Data for December are estimated.

Source: Office of the Actuary, Social Security Administration.

TABLE 8.—NUMBER OF DISABILITY INSURANCE BENEFICIARIES FOR SELECTED YEARS: 1960–84

[Current payment status, December]

	Disabled workers	Spouse	Child	Total
Year:				
1960	455,371	76,599	155,481	687,451
1965	988,074	193,362	557,615	1,739,051
1970	1,492,948	283,447	888,600	2,664,995
1975	2,488,774	452,922	1,410,504	4,352,200
1980	2,861,253	462,204	1,358,715	4,682,172
1981	2,776,519	428,212	1,251,543	4,456,274
1982	2,603,713	365,883	1,003,869	3,973,465
1983	2,568,966	308,060	935,904	3,812,930
1984	2,596,535	303,984	921,285	3,821,804

CHARACTERISTICS OF DI BENEFICIARIES

TABLE 9.—PERCENT DISTRIBUTION BY AGE AND SEX OF DISABLED WORKER BENEFICIARIES ALLOWED IN SELECTED YEARS 1970–82, COMPARED WITH ADULT U.S. POPULATION

Characteristics	Year allowed benefits						Adult U.S. population[1]
	1970	1973	1975	1978	1979	1982	
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Age:							
Under 35	9.0	8.0	11.0	13.0	13.6	14.4	49.0
35 to 44	11.0	9.0	10.0	12.1	11.5	12.3	19.0
45 to 54	26.0	26.0	26.0	28.3	27.2	26.5	16.0
55 to 59	24.0	26.0	23.0	25.5	27.0	27.2	8.0
60 and over	30.0	31.0	30.0	21.2	20.6	19.6	8.0
Median age (years)	56.0	56.3	55.6	53.1	53.4	53.1	35.4
Sex:							
Male	74	71	68	70	69	70	49
Female	26	29	32	30	31	30	51

[1] Derived from 1980 Census; based on population aged 18–64.

Source: Office of Disability, Social Security Administration.

TABLE 10.—PERCENT DISTRIBUTION BY EDUCATION AND OCCUPATION OF DISABLED WORKER BENEFICIARIES ALLOWED IN SELECTED YEARS 1970–82, COMPARED WITH ADULT U.S. POPULATION

Education and occupation	Year allowed benefits						Adult U.S. population [1]
	1970	1973	1975	1978	1979	1982	
Total percent	100	100	100	100	100	100	100
Education (years of school completed):							
No schooling	2	1	1	1	1	1	2
Elementary school (1 to 8)	44	40	37	31	29	26	17
High school	46	50	52	54	55	56	51
9 to 11	23	23	24	NA	23	22	14
12	23	26	28	NA	32	34	37
Some college	9	10	10	12	12	14	32
Unknown	0	0	0	2	3	3	2
Occupation:							
Professional, technical and managerial	12	13	18	11	14	14	24
Clerical and sales	15	15	14	12	15	15	25
Service	18	17	17	12	15	14	12
Farming	6	5	4	3	4	3	3
Transportation, packaging and handling, mineral extraction	14	13	12	10	12	12	18
Machine trades	11	11	10	8	10	10	
Bench work	6	7	7	5	6	5	
Processing	3	4	3	3	3	4	18
Structural work	15	15	15	32	14	15	
Unknown	0	0	0	4	7	8	

[1] Derived from 1980 Census. Figures for education based on persons aged 25 and over. Figures for occupation based on employed population aged 18–64.

Source: Office of Disability, Social Security Administration.

NA—Not available.

TABLE 11.—PERCENT DISTRIBUTION BY DISABLING CONDITION AND MOBILITY OF DISABLED WORKER BENEFICIARIES ALLOWED IN SELECTED YEARS 1970–82

Disabling condition and mobility	Year allowed benefits					
	1970	1973	1975	1978	1979	1982
Total percent	100	100	100	100	100	100
Disabling condition:						
Infective and parasitic diseases	3	2	1	1	1	1
Neoplasms	10	10	10	12	14	17
Allergic, endocrine system, metabolic and nutritional diseases	4	4	3	4	3	4
Mental, psychoneurotic and personality disorders	11	10	11	12	11	11
Diseases of the nervous system and sense organs	6	6	7	6	8	9
Circulatory system	31	32	32	29	28	25
Respiratory system	7	7	7	6	6	7
Digestive system	3	3	3	3	2	2
Skeletal musculo	15	17	17	19	17	16
Accidents, poisonings and violence	8	6	6	6	6	6
Other	2	3	3	3	3	2
Mobility:						
Institutionalized	6	3	2	2	2	1
Hospitalized	6	4	3	2	2	3
Housebound	6	3	2	1	2	2
Ambulatory outside house:						
With help	16	16	13	10	10	10
By self	66	73	77	82	82	81
Other/unknown	0	0	0	2	2	3

Source: Office of Disability, Social Security Administration.

RECENT LEGISLATIVE CHANGES

97TH CONGRESS

Continued payment of disability benefits during appeal

Under current law, a social security disability insurance (DI) beneficiary who is found to be no longer disabled under the provisions of the Social Security Act continued to receive benefits for 2 months after the month in which his eligibility was determined to have ceased. (As an administrative practice, individuals are generally found to be "no longer disabled" no earlier than the month in which the individual was notified of the termination decision.)

The individual may request a reconsideration of the decision, and if the termination is upheld, he may appeal the decision to an administrative law judge (ALJ). The individual is not eligible for benefits during the appeal process. However, if the initial termination decision is reversed, benefits are paid retroactively.

For beneficiaries who were found no longer disabled prior to December 7, 1983, upon request of the beneficiary, DI benefits and medicare coverage would continue to be paid through the month preceding the month of the decision pursuant to a hearing before an administrative law judge. These additional DI benefits would be subject to recovery as overpayments, subject to the same waiver provisions now in prior law, if the initial termination decision is upheld. This continuation of benefits was effective for benefit payments through May 1984.

Evidentiary hearings in reconsiderations of disability benefit terminations

Public Law 97-455 requires the Secretary to provide, beginning no later than January 1, 1984, opportunity for a face-to-face, evidentiary hearing during reconsideration of decisions to terminate benefits for disability beneficiaries. This requirement does not supplant or affect in any way the requirement of existing law for a hearing by an administrative law judge. The provision applies only to reconsiderations of determinations that the beneficiary is not disabled because the physical or mental impairment on which his eligibility is based is found to have ceased, not to have existed or to no longer be disabling.

Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35)

Enacted as a part of this act was a provision which eliminated reimbursement from the trust funds to the State vocational rehabilitation agencies for rehabilitation services except in cases where the services have resulted in the beneficiary's performance of substantial gainful activity (SGA) for a continuous period of 9 months.

Also enacted was a provision to reduce social security disability benefits in recognition of related payments from other public programs (megacap); a provision to extend the offset to disabled worker beneficiaries aged 62 through 64 and their families, and a provision to change the month in which payments are first offset.

98TH CONGRESS: THE DISABILITY BENEFITS REFORM ACT OF 1984

Public Law 98-460, the Disability Benefits Reform Act of 1984, made several substantial changes in the standards for review of disability beneficiaries, and in other provisions of the program as well. The following is a summary of the new law.

1. Medical improvement standard

Public Law 98-460 establishes a medical improvement standard under which the Secretary may terminate disability benefits on the basis that the person is no longer disabled only if:

(1) There is substantial evidence demonstrating that (a) there has been any medical improvement in the individual's impairment or combination of impairments (other than medical improvement which is not related to the person's ability to work), (b) the individual is now able to engage in substantial gainful activity (SGA); or

(2) There is substantial evidence consisting of new medical evidence and a new assessment of RFC which demonstrates that although there is no medical improvement, (a) the person has benefited from advances in medical or vocational therapy

or technology related to ability to work, and (b) that he or she is now able to perform SGA; or

(3) There is substantial evidence that although there is no medical improvement (a) the person has benefited from vocational therapy and (b) the beneficiary can now perform SGA; or

(4) There is substantial evidence that, based on a new or improved diagnostic techiques or evaluations, the person's impairment or combination of impairments is not as disabling as it was considered to be at the time of the prior determination, and that therefore the individual is able to perform SGA; or

(5) There is substantial evidence either in the file at the original determination or newly obtained showing that the prior determination was in error; or

(6) There is substantial evidence that the original decision was fraudently obtained; or

(7) If the individual is engaging in SGA (except where he or she is eligible under Section 1619), fails without good cause to cooperate in the review or follow prescribed treatment or cannot be located.

In making the determination, the Secretary shall consider the evidence in the file as well as any additional information concerning the claimant's current or prior condition secured by the Secretary or provided by the claimant.

Determinations under this provision must be made on the basis of the weight of the evidence, and on a neutral basis with regard to the individual's condition, without any inference as to the presence or absence of disability based on the previous finding of disability.

Regulations must be issued within 6 months.

Effective date: Applies only with respect to the following categories:

(1) Determinations by the Secretary made after date of enactment;

(2) Cases pending at any level of the administrative process on the date of enactment;

(3) Cases of individual litigants pending in Federal court on the date of the conference report is filed;

(4) Cases of named plaintiffs in class action suits pending on that date;

(5) Cases of unnamed plaintiffs in class action suits certified prior to that date; and

(6) Cases where a request for judicial review is made on a decision of the Secretary made during the 60 days preceding enactment;

Cases in categories (3), (4), (5), and (6) will be remanded to the Secretary for review under this standard. Individuals in (5) will be sent a notice via certified mail informing them that they have 120 days after the date of receipt of the notice to request a review under the medical improvement standard.

No class action may be certified after the date the conference report is filed which raises the issue of medical improvement with respect to an individual whose benefits were terminated prior to that date.

Persons whose cases are remanded to the Secretary will receive benefits pending the Secretary's decision and appeal of that decision if they so elect. If found eligible, any person whose case was remanded under this provision will receive benefits retroactive to the date they were last found ineligible.

2. Evaluation of pain

The Secretary of HHS is required, in conjunction with the National Academy of Sciences, to conduct a study concerning the questions of using subjective evidence of pain in determining whether a person is under a disability, and the state of the art of preventing, reducing or coping with pain. This study is due to the House Committee on Ways and Means and the Senate Committee on Finance by December 31, 1985.

The following statutory standard is established, to be in effect until December 31, 1986:

> An individual's statement as to pain or other symptoms shall not alone be conclusive evidence of disability as defined in this section; there must be medical signs and findings, established by medically acceptable clinical or laboratory diagnostic techniques which show the existence of a medical impairment that results from anatomical, physiological or psychological abnormalities which could reasonably be expected to produce the pain or other symptoms alleged and which, when considered with all evidence required to be furnished under this paragraph (including statements of the individual or his physician as to the intensity and persistence of such pain or other symptoms which may reasonably be accepted as consistent with the medical signs and findings), would lead to a conclusion that the individual is under a disability. Objective medical evidence of pain or other symptoms established by medically acceptable clinical or laboratory techniques (for example, deteriorating nerve or muscle tissue), must be considered in reaching a conclusion as to whether the individual is under a disability.

3. Multiple impairments

In determining whether a person's impairment or impairments are of a sufficient medical severity to be the basis of a finding of eligibility for benefits, the Secretary must consider the combined effect of all of the person's impairments, whether or not any one impairment would alone be severe enough to qualify the person for benefits. Provision applies to all determinations made on or after 30 days after enactment.

4. Moratorium on mental impairment reviews

A moratorium is imposed on reviews of all cases of mental impairment disability until the mental impairment criteria in the Listing of Impairments are revised to realistically evaluate the person's ability to engage in SGA in a competitive workplace environment. The revised criteria are to be published within 120 days of the date of enactment. The moratorium applies to all cases on which an administrative or judicial appeal was pending on or after June 7, 1983. All persons claiming benefits based on mental impairment disability who received an unfavorable initial or continuing disability decision after March 1, 1981 could reapply for benefits within 12 months of enactment.

5. Pretermination notice

The Secretary is required to initiate demonstration projects on providing face-to-face interviews for (1) pretermination continuing disability cases and (2) for all initial denial cases, in lieu of face-to-face evidentiary hearings at reconsideration, to be done in at least five States with a report due to the Committees on Ways and Means and Finance April 1, 1986. The Secretary is also required to notify individuals, upon initiating a periodic eligibility review, that termination of benefits could be the result of the review, and that medical evidence may be provided.

6. Continuation of benefits during appeal

Public Law 98-460 provides for continuation of benefits during appeal for all continuing disability review cases through the decision of the administrative law judge, at the election of the individual. Where the ALJ's decision is adverse to the individual, these benefits would have to be repaid. The provision is permanent for SSI disability recipients, and will apply to title II disability beneficiaries through December 1987. The Secretary is required to report to Congress on the impact of this provision by July 1, 1986.

7. Qualifications of medical professionals

The Secretary is to make every reasonable effort, in cases based on mental impairments, to insure that a qualified psychiatrist or psychologist complete the medical portion of the case review and of the residual functional capacity assessment before any determination may be made that an individual is not disabled. The Secretary has the authority to contract directly for such services if the State agency is unable to do so.

8. Standards for consultative examinations/medical evidence

The Secretary is to promulgate regulations regarding consultative examinations, including when they should be obtained, the type of referral to be made, and the procedures for monitoring the referral process. The Secretary must make every effort to obtain necessary medical evidence from the treating physician before evaluating medical evidence from any other source. The Secretary must also consider all evidence in the case record and development of complete medical history over at least the preceding 12-month period.

9. Administrative procedure and uniform standards

Regulations are to be published setting forth uniform standards for DI and SSI disability determinations under section 553 of the Administrative Procedure Act, to be binding at all levels of adjudication.

10. Nonacquiescence

The agreement to drop both the House and Senate provisions is not to be interpreted as approval of the practice of "nonacquiescence", that the conferees note that questions have been raised about the constitutional basis of the practice, that many of the conferees have strong concerns about the current application of the practice, and that a policy of nonacquiescence should be followed only where steps have been taken or are intended to be taken to receive a review of the disputed issue in the Supreme Court. The conferees also urge the Secretary to seek a resolution of the nonacquiescence issue in the Supreme Court.

11. Payment of costs of rehabilitation services

Reimbursement to State agencies is allowed for costs of VR services provided to individuals receiving DI benefits under section 225(b) of the Social Security Act who medically recover while in VR, whether or not the person worked at SGA for 9 months, and whether or not the person failed to cooperate in the program.

12. Direction for Quadrennial Social Security Advisory Council

The next quadrennial advisory council (as required in the Social Security Act) is to study the medical and vocational aspects of disability using ad hoc panels of experts where appropriate. The study must include alternative approaches to work evaluation for SSI recipients, effectiveness of VR programs, and other disability program policies, standards, and procedures. The Secretary must appoint the members by June 1, 1985.

13. Staff attorneys

The Secretary is to report, within 120 days of enactment, to the Committees on Ways and Means and Finance, on the actions taken by the Secretary to establish positions which enable staff attorneys to gain the qualifying experience and quality of experience necessary to compete for ALJ positions. Statement of managers states that it is assumed, given recent OPM actions, that statutory requirements for establishing specific positions are not required, and that the Secretary is urged to take all reasonable steps to see that the OPM actions result in SSA staff attorneys becoming qualified for GS-15 ALJ positions.

14. SSI benefits for persons working despite impairment

Public Law 98-460 extends Sections 1619 (a) and (b) through June 30, 1987, and requires the Secretaries of HHS and Education to establish training programs for staff personnel in SSA district offices and State VR agencies, and disseminate information to SSI applicants, recipients, and potentially interested public and private organizations. Effective retroactive to January 1, 1984.

15. Frequency of continuing eligibility reviews

The Secretary is required to promulgate regulations establishing standards for determining the frequency of continuing eligibility reviews. Final regulations must be issued within 6 months; until that time, no individual may be subject to more than one periodic review.

16. Representative payees for Social Security and SSI beneficiaries

The Secretary is required to (1) evaluate qualifications of prospective payees prior to or within 45 days following certification, (2) establish a system of annual accountability monitoring where payments are made to someone other than a parent or spouse living in the same household with the beneficiary, and (3) report to Congress on implementation, and annually on the number of cases of misused funds and disposition of such cases.

TABLE 12.—ESTIMATED OUTLAYS RESULTING FROM THE MAJOR PROVISIONS IN PUBLIC LAW 98–460, THE SOCIAL SECURITY DISABILITY BENEFITS REFORM ACT OF 1984

[By fiscal year, in millions of dollars]

	1985	1986	1987	1988	1989
Termination of benefits based on medical improvement:					
DI	86	123	130	136	133
HI and SMI	25	35	40	40	40
Medicaid	3	4	4	4	4
SSI	3	4	4	4	4
Multiple impairments:					
DI	4	7	11	13	15
HI and SMI	(1)	(1)	1	2	2
Medicaid	(1)	1	1	1	1
SSI	1	2	2	3	3
Continued payment during appeal:					
DI	149	134	114	60	−20
HI and SMI	48	50	40	15	0
Medical personnel qualifications:					
DI	(1)	(1)	10	10	20
HI and SMI	(1)	(1)	1	1	3
Medicaid	(1)	(1)	1	1	2
SSI	(1)	(1)	2	2	5
Vocational rehabilitation:					
DI	2	4	7	8	8
HI and SMI	(1)	(1)	(1)	(1)	(1)
SSI	(1)	(1)	(1)	(1)	(1)
Extension of sections 1619a and 1619b:					
Medicaid	10	7	6	0	0
SSI	1	2	2	0	0
Total:					
DI [2]	220	243	247	216	140
HI and SMI	73	85	82	58	45
Medicaid	13	12	12	6	7
SSI	5	8	10	9	12
Total outlays [2]	311	348	351	289	204

[1] Less than $500,000.

[2] The details do not add to the totals due to interaction between provisions.

Note: Preliminary estimates.

Source: Congressional Budget Office.

Section 4. Medicare

Medicare, authorized under title XVIII of the Social Security Act, is a nationwide health insurance program for the aged and certain disabled persons. It consists of two parts: the hospital insurance (part A) program and the supplementary medical insurance (part B) program.

ELIGIBILITY

Most Americans age 65 or older are automatically entitled to protection under part A. Persons age 65 or older who are not "fully insured" (i.e., not eligible for monthly social security or railroad retirement cash benefits) may obtain coverage, providing they pay the full actuarial cost of such coverage. The monthly premium, as of January 1, 1985, is $174. Also eligible, after a 2-year waiting period, are people under age 65 who are receiving monthly social security benefits on the basis of disability and disabled railroad retirement system annuitants. (Dependents of the disabled are not eligible.) Most people who need a kidney transplant or renal dialysis because of chronic kidney disease are, under certain circumstances, entitled to benefits under part A regardless of age.

Part B of Medicare is voluntary. All persons age 65 or older (whether "insured" or not) may elect to enroll in the supplementary medical insurance program by paying the monthly premium. Persons eligible for part A by virtue of disability or chronic kidney disease may also elect to enroll in part B. The premium, as of January 1, 1985, is $15.50.

NUMBER OF BENEFICIARIES

In fiscal year 1985, approximately 27.3 million aged and 3.0 million disabled will have protection under part A. Of those, it is estimated that 7.1 million aged and 0.8 million disabled will actually receive reimbursed services. In fiscal year 1985, 27.2 million aged and 2.7 million disabled will be enrolled in part B. Over 19.7 million of the aged and 1.9 million of the disabled will receive part B reimbursed services.

TABLE 1.—NUMBER OF AGED AND DISABLED ELIGIBLE ENROLLEES AND BENEFICIARIES AND AVERAGE AND TOTAL MEDICARE BENEFIT PAYMENTS

[Persons in thousands]

	1980 (actual)	1984 (actual)	1985 [1] (estimate)	1986 [1] (estimate)	Projected average annual growth 1980–86
Part A:					
Persons with hospital insurance protection (monthly average):					
Aged	24,471	26,722	27,314	27,924	2.2
Disabled	2,977	2,879	2,961	2,946	−.2
Beneficiaries receiving reimbursed services:					
Aged	5,860	6,850	7,090	7,340	3.8
Disabled	800	770	790	790	−.2
Average annual benefit per person enrolled: [2]					
Aged	$854	$1,375	$1,556	$1,600	11.0
Disabled	$970	$1,643	$1,834	$1,905	11.9
Total benefit payments per beneficiary reimbursed:					
Aged	$3,568	$5,362	$5,993	$6,087	9.3
Disabled	$3,609	$6,143	$6,873	$7,105	12.0
Part B:					
Beneficiaries:					
Persons enrolled (average):					
Aged	24,410	26,583	27,189	27,819	2.2
Disabled	2,703	2,661	2,680	2,697	−.3
Beneficiaries receiving reimbursed services:					
Aged	15,525	19,060	19,719	20,412	4.7
Disabled	1,737	1,885	1,926	1,961	2.0
Average annual benefit per person enrolled:					
Aged	$346	$623	$692	$768	14.2
Disabled	$630	$1,094	$1,228	$1,358	13.6
Total benefit payments per beneficiary reimbursed:					
Aged	$544	$869	$954	$1,047	11.5
Disabled	$980	$1,545	$1,709	$1,868	11.4

[1] Represents current policy (e.g., no payment freeze in DRG rates).

[2] Does not include administrative cost.

Source: Health Care Financing Administration.

COVERAGE

Most individuals establish entitlement to part A on the basis of work in employment covered by either the Social Security or railroad retirement systems. Certain employment is excluded from Social Security (including part A hospital insurance) taxation.

The Tax Equity and Fiscal Responsibility Act of 1982 extended the hospital insurance tax to Federal employment effective with respect to wages paid on or after January 1, 1983. For calendar year 1984, the tax was 1.3 percent of wages up to $37,800 and, for calendar year 1985, it is 1.35 percent of wages up to $39,600. Beginning January 1, 1983, Federal employment is used to determine eligibility for protection under Medicare part A. A transitional provision allows individuals who are in the employ of the Federal Government both before and during January 1, 1983 to have their prior Federal employment considered as employment for purposes of providing Medicare coverage.

BENEFITS

Part A of Medicare will pay for:

1. *Inpatient hospital care.*—All reasonable expenses for the first 60 days minus a deductible ($400 in calendar year 1985) in each benefit period. For days 61–90, a coinsurance amount ($100 in calendar year 1985) is deducted. When more than 90 days are required in a benefit period, a patient may elect to draw upon a 60 day lifetime reserve. A coinsurance amount ($200 in calendar year 1985) is also deducted for each reserve day.
2. *Skilled nursing facility care.*—Up to 100 days (following hospitalization) in a skilled nursing facility for persons in need of continued skilled nursing care and/or skilled rehabilitation services on a daily basis. After the first 20 days, there is a daily coinsurance amount deducted ($50 in calendar year 1985).
3. *Home health care.*—An unlimited number of medically necessary home health visits by nurses, therapists, and other health workers for a homebound individual.
4. *Hospice care.*—For the period November 1, 1983 to October 1, 1986, Medicare coverage for hospice care services provided to terminally ill Medicare beneficiaries with a life expectancy of 6 months or less.

Part B of Medicare pays 80 percent of the reasonable charges (or of reasonable cost) for covered services in excess of an annual deductible ($75). Services covered include the following:

1. *Doctor's services.*—Including surgery, consultation, and home, office and institutional visits. Certain limitations apply for services rendered by dentists, podiatrists and chiropractors and for the treatment of mental illness.
2. *Other medical and health services.*—Laboratory and other diagnostic tests, X-ray and other radiation therapy, outpatient services at a hospital, rural health clinic services, home dialysis supplies and equipment, artificial devices (other than dental), physical and speech therapy, and ambulance services.

3. Home health services.—Unlimited number of medically necessary home health visits. The 20 percent coinsurance and $75 deductible do not apply for such benefits.

Table 3 illustrates the deductible, coinsurance and premium amounts for both part A and part B services from the inception of Medicare.

TABLE 2.—BENEFIT PAYMENTS BY SERVICE UNDER PART A AND PART B, FISCAL YEARS 1976, 1981, AND 1986

[Dollars in millions]

	1976 payments (actual)		1981 payments (actual)		1986 payments [1] (estimate)		Projected average annual growth (1976–86)
	Amount	Percent	Amount	Percent	Amount	Percent	
Part A							
For inpatient hospital services	$11,742	69.3	$27,757	67.3	$47,155	62.6	14.9
For skilled nursing facility services	308	1.8	424	1.0	658	.9	7.9
For home health services	217	1.3	726	1.8	2,447	3.2	27.4
For hospice services	0	0	0	0	30	0	....
Total benefit payments	12,267	72.4	28,907	70.1	50,290	66.8	15.2
Part B							
For physician services	3,439	20.3	8,859	21.5	17,701	23.5	17.8
For radiology and pathology services	251	1.5	654	1.6	664	.9	10.2
For outpatient services	717	4.2	2,215	5.4	5,266	7.0	22.1
For other medical and health services	265	1.6	617	1.5	1,410	1.9	18.2
Total benefit payments	4,672	27.6	12,345	29.9	25,041	33.2	18.3
Total	16,939	100.0	41,252	100.0	75,331	100.0	16.1

[1] Represents current policy (e.g., no payment freeze in DRG rates).

Source: Health Financing Administration.

TABLE 3.—HISTORICAL AND PROJECTED AMOUNTS OF PART A (HOSPITAL INSURANCE) AND PART B (SMI) REDUCTIBLE, COINSURANCE AND PREMIUMS [1]

For benefit periods begining in	Inpatient hospital [2]			Skilled nursing facility 21st thru 100th day coinsurance per day [5]	HI monthy premium [6]		SMI deductible	SMI premium	
	First 60 days deductible	61st thru 90th day coinsurance per day [3]	60 lifetime reserve days (nonrenewable) coinsurance per day [4]		Effective date	Amount		Effective date	Amount
1966	$40	$10	(7)	(7)			$50	7/66	$3.00
1967	40	10	(7)	$5.00			50		3.00
1968	40	10	$20	5.00			50	4/68	4.00
1969	44	11	22	5.50			50		4.00
1970	52	13	26	6.50			50	7/70	5.30
1971	60	15	30	7.50			50	7/71	5.60
1972	68	17	34	8.50			50	7/72	5.80
1973	72	18	36	9.00	7/73	$33	60	[8] 9/73	6.30
1974	84	21	42	10.50	7/74	36	60	7/74	6.70
1975	92	23	46	11.50	7/75	40	60		6.70
1976	104	26	52	13.00	7/76	45	60	7/76	7.20
1977	124	31	62	15.50	7/77	54	60	7/77	7.70
1978	144	36	72	18.00	7/78	63	60	7/78	8.20
1979	160	40	80	20.00	7/79	69	60	7/79	8.70
1980	180	45	90	22.50	7/80	78	60	7/80	9.60
1981	204	51	102	25.50	7/81	89	60	7/81	11.00
1982	260	65	130	32.50	7/82	113	75	7/82	12.20
1983	304	76	152	38.00		113	75		12.20
1984	356	89	178	44.50	1/84	155	75	1/84	14.60

1985	400	100	200	50.00	1/85	174	75	1/85	15.50
1986 [9]	476	119	238	59.50	1/86	205	75	1/86	17.30
1987 [9]	524	131	262	65.50	1/87	228	75	1/87	19.30

---

[1] For services furnished on or after January 1, 1982, the coinsurance amounts are based on the inpatient hospital deductible for the year in which the services were furnished. For services furnished prior to January 1, 1982, the coinsurance amounts are based on the inpatient hospital deductible applicable for the year in which the individual's benefit period began.

[2] For care in psychiatric hospital—190 day lifetime limit.

[3] Always equal to ¼ of inpatient hospital deductible.

[4] Always equal to ½ of inpatient hospital deductible.

[5] Always equal to ⅛ of inpatient hospital deductible.

[6] Not applicable prior to July 1973. Applies to individuals who are not fully insured.

[7] Not covered.

[8] For August 1973 the premium was $6.10.

[9] Administration projections under current law.

Note: In addition to the deductible and coinsurance amounts shown in the table, the first 3 pints of blood are not reimbursed by Medicare. Currently there is no deductible or coinsurance on home health benefits. From January 1973 to June 30, 1982, there was a $60 annual deductible and prior to July 1, 1981, benefits were limited to 100 visits per benefit period under part A and 100 visits per calendar year under part B. Special limits apply to certain benefits: (1) Outpatient physician services for mental illness: 50 percent of approved charges; up to a maximum of $250 in benefits per year; (2) Physical therapy services furnished by physical therapists in independent practice: Maximum annual approved charges July 1, 1973, through December 31, 1981, $80 per year; January 1, 1982 and therafter, $400 per year.

Source: Health Care Financing Administration.

ADMINISTRATION

Responsibility for administration of the Medicare program has been delegated by the Secretary of Health and Human Services to the Administrator of the Health Care Financing Administration (HCFA). Much of the day-to-day operational work of the program is performed by "intermediaries" and "carriers" which have responsibility for reviewing claims for benefits and making payments.

In general, hospitals and other providers paid under part A of Medicare can nominate, subject to HCFA's approval, a national, State, or other public or private agency to serve as a fiscal intermediary between themselves and the Federal Government.

Medicare payments that are based on costs that are necessary to meet the costs which must be incurred by an efficiently and economically operated organization are made by insurance organizations, referred to as carriers, that have been selected by the Secretary to serve specified geographical areas.

Medicare administrative costs amount to 2.5 percent of program outlays.

Hospitals

The Social Security Amendments of 1983 (Public Law 98-21) altered the way in which Medicare pays hospitals. From the inception of the program, Medicare had paid hospitals on a "reasonable cost" basis. Effective October 1, 1983, Medicare began paying under a prospective payment system. Medicare payments for inpatient operating costs of hospitals are determined in advance and made on a per discharge basis. A fixed amount per case is paid based upon the type of case or "diagnosis-related group" (DRG) into which the case is classified.

The payment system is not applied to capital-related costs nor to direct medical education costs. These expenses will continue to be reimbursed on a reasonable cost basis. Capital costs will no longer be excluded from the system beginning October 1, 1986. Certain hospitals excluded from the system are: psychiatric, long-term care, children's and rehabilitation hospitals. Excluded hospitals will continue to be paid based on reasonable costs subject to certain rate of increase limitations.

Additional payments may be made for extraordinarily costly cases and for the indirect costs of medical education. An adjustment will be made for the wage level in the area in which the hospital is located. In addition, there are certain other exceptions and adjustments including those for sole community providers, national and regional referral centers, cancer treatment centers and hospitals that serve a disproportionately large number of low income and Medicare beneficiaries.

The payment system will be phased in over 3 years from payments based on an individual hospital's historic costs to payments based on the new prospective payment rates. In addition, the system will be phased in from payments representing nine regional payment levels to one national payment level for each DRG. There will be separate payment levels for urban and rural areas.

Hospitals and other institutional providers receiving payment under Medicare part A submit bills on behalf of the beneficiary and agree to accept the program's payment as payment in full. In general, providers are permitted to charge beneficiaries only the deductible and coinsurance amounts authorized by law.

Physicians

Medicare law provides that payments are to be made to or on behalf of persons enrolled under part B of the Medicare program for expenses incurred by them for covered physicians' services and for covered services provided by other noninstitutional providers. After certain deductible and coinsurance amounts have been met, Medicare pays for covered physician services on the basis of "reasonable charges".

The reasonable charge for a specific service, in the absence of unusual medical complications, can be: (1) no higher than the individual practitioner's *customary charge for that service;* (2) no higher than the applicable *prevailing charge* for similar services in the locality; and (3) no higher than the *actual charge* of the individual physician rendering the service.

Customary and prevailing charge screens used to calculate the reasonable charge (approved charges) are usually updated every July 1. The Deficit Reduction Act of 1984 (Public Law 98–369) freezes the amount Medicare reimburses for physician services for the 15-month period beginning July 1, 1984, through September 30, 1985. Therefore, the annual increases in customary and prevailing charges otherwise slated for July 1, 1984, did not occur. In addition, the legislation provided that physicians would not be allowed to increase their actual charges to beneficiaries during this 15-month freeze period, unless the physician was a participating physician under the Medicare program. (A full explanation of physician reimbursement and of the changes made in Public Law 98–369 appear in Appendix D.)

The following table shows the number of participating institutions and organizations.

TABLE 4.—PARTICIPATING INSTITUTIONS AND ORGANIZATIONS (JUNE 1984)

Hospitals	6,675
Short stay	6,038
Long stay	637
Skilled nursing facilities	5,952
Home health agencies	4,684
Independent laboratories	3,801
Outpatient physical therapy providers	791
Portable X-ray suppliers	269
Rural health clinics	420
Comprehensive outpatient rehabilitation facilities	48
Ambulatory surgical centers	155
Hospices	108
Facilities providing services to renal disease beneficiaries	1,335
Hospitals certified as both renal transplant and renal dialysis centers	147
Hospitals certified as renal transplant centers	16
Hospital dialysis facilities	117
Non-hospital renal dialysis facilities	645

TABLE 4.—PARTICIPATING INSTITUTIONS AND ORGANIZATIONS (JUNE 1984)—Continued

Dialysis centers only	359
Inpatient care	51

HOSPITAL AND SKILLED NURSING FACILITY BEDS (JUNE 1984)

Hospitals	1,144,142
Short stay	1,023,465
Long stay	120,677
Skilled nursing facilities	530,403

Source: Health Care Financing Administration.

END STAGE RENAL DISEASE PROGRAM

In 1972, Public Law 92-603 was signed extending Medicare coverage for certain individuals with chronic renal failure. The Medicare program covers individuals, under age 65, who suffer from end stage renal disease, if they are (1) fully insured for old age and survivor insurance benefits, or (2) are entitled to either monthly social security benefits, or (3) are spouses or dependents of individuals described in (2). Such persons must be medically determined to be suffering from end stage renal disease and must file an application for benefits. Approximately 7 percent of the population suffering from end stage renal disease (ESRD) does not meet any of these requirements and thus are not covered for Medicare renal benefits.

Benefits for qualified end stage renal disease beneficiaries include all part A (hospital insurance) and part B (supplementary medical insurance) medical items and services. ESRD beneficiaries are automatically enrolled in the part B portion of Medicare and must pay the monthly premium for such protection.

Table 5 shows program expenditures, number of beneficiaries, and the average expenditure per person from 1974 to projected expenditures and beneficiaries through 1990. Total projected program expenditures for Medicare end stage renal disease program for fiscal year 1986 amount to $2.6 billion. In fiscal year 1986, there are projected to be 96,100 ESRD beneficiaries including successful transplant patients.

TABLE 5.—ESRD MEDICARE BENEFICIARIES AND PROGRAM EXPENDITURES

[Dollars in millions]

Year	Expenditures	Beneficiaries	Per person
1974	$229	15,993	$14,300
1975	361	22,674	15,900
1976	512	28,941	17,700
1977	641	35,889	17,900
1978	800	43,482	18,400
1979	1,010	52,636	19,200
1980	1,250	60,814	20,600

TABLE 5.—ESRD MEDICARE BENEFICIARIES AND PROGRAM EXPENDITURES—Continued

[Dollars in millions]

Year	Expenditures	Beneficiaries	Per person
1981	1,472	68,288	21,500
1982	1,650	75,097	22,000
1983	1,889	81,873	23,100
1984	2,100	87,000	24,200
1985	2,300	92,000	25,400
1986	2,600	96,100	26,700
1987	2,800	99,700	28,000
1988	3,000	102,600	29,500
1989	3,200	104,800	30,900
1990	3,500	106,400	32,500

Note: Projections for 1985–90 are subject to revision by the Office of Financial and Actuarial Analysis.

Source: Office of Research, Health Care Financing Administration, Department of Health and Human Services.

Outpatient maintenance dialysis can be provided in either a hospital-based setting or independent (often called freestanding) setting.

Until 1983, payment for maintenance dialysis under Medicare had been based on cost-based principles in the case of outpatient dialysis care furnished by hospitals and on the basis of "reasonable" or allowed charges in the case of services provided by independent (or freestanding) dialysis treatment facilities.

In 1981, the Congress passed Public Law 97–35 which required the Secretary to establish dual, or separately calculated, prospective rates for hospital-based and for freestanding facilities. Congress expressed a preference that these formulas be composite in nature, that is, they take into account the proportions of hospital-based and independent facility patients dialyzing at home and the relative costs of providing dialysis at home and in the facility setting.

Under the regulations implementing the law, before any exceptions are taken into account, the average (base) payment rate under the prospective payment system is $127 per treatment for independent facilities and $131 per treatment for hospital units, regardless of whether the treatment is furnished in the facility or in the patient's home. The payment rates are adjusted by an area wage index to take into account differences in the local labor costs of dialysis facilities so that the actual payment rates (without any adjustments for exceptions) may vary above and below the average payment rates established for hospital-based and independent dialysis units. The new prospective payment system was implemented as of August 1, 1983.

Kidney transplants are covered for Medicare beneficiaries. The cost incurred by the kidney donor are reimbursed by Medicare even if the donor is not a Medicare beneficiary. Medicare reimbursed more than 90 percent of the kidney transplants performed in the United States. Table 6 shows the numbers of transplants performed in Medicare-certified hospitals.

TABLE 6.—TOTAL KIDNEY TRANSPLANTS PERFORMED IN MEDICARE CERTIFIED U.S. HOSPITALS

Calendar year	Total transplants	Living donor		Cadaveric donor	
		Number	Percent	Number	Percent
1979	4,189	1,186	28	3,003	72
1980	4,697	1,275	27	3,422	73
1981	4,883	1,458	30	3,425	70
1982	5,358	1,677	31	3,681	69
1983	6,112	1,784	29	4,328	71

HOME HEALTH

The hospital insurance (part A) and the supplementary medical insurance (part B) programs cover home health services without a deductible or coinsurance charge. There is no limitation on the number of home health visits covered under the home health program, and there is no prior hospitalization requirement. When an individual is covered under part A and B of the Medicare program, the individual will generally receive payment for home health services under part A of the program.

Reimbursement to home health agencies is based on Medicare rules for reasonable cost reimbursement. However, home health agencies are required to use the cost per visit by type of service for apportioning costs. Under this method, the total allowable costs of all visits for each type of service (skilled nursing, home health aide, etc.) is divided by the total number of visits by type of service. These average cost per visit amounts are multiplied by the number of covered Medicare visits for each type of service. The products represent the cost Medicare will recognize by type of service, subject to home health agency cost limits.

Cost limits for home health agencies are set at the 75th percentile of average per visit costs. Though the limits are established by type of service, they are applied to each agency as a single aggregate limit based on the number of visits for each type of service.

Public Law 97-248 required the Secretary to establish a single reimbursement limit for home health agencies based on the cost experience of freestanding home health agencies. In establishing the single limits, the Secretary was required to make adjustments, as appropriate, for hospital-based home health agencies based on legitimate cost differences resulting from such factors as a more complex case mix and the effects of Medicare cost allocation requirements. The single limits were published July 2, 1984. An "add on" for hospital based facilities was provided.

The Medicare home health benefit is the fastest growing part of the Medicare program. Table 7 below indicates the increase in Medicare program expenditures for home health care.

TABLE 7.—MEDICARE HOME HEALTH SERVICES

Calendar year	Total Medicare reimbursements (millions)	Percent change	Total Medicare visits (millions)	Visits per 1,000 enrollees	Visits per user	Average charge per visit
1969	$81		8.5	424		$10
1970	63	−22.7	6.0	291		12
1971	57	−8.8	4.8	226		13
1972	66	15.7	5.2	241		14
1973	93	40.9	6.4	265		15
1974	139	48.6	7.9	340	20.6	17
1975	215	55.1	10.8	431	21.6	20
1976	297	38.1	13.6	520	22.7	22
1977	371	24.9	15.8	597	22.5	25
1978	443	19.5	17.6	639	22.5	27
1979	541	22.4	19.9	717	22.9	30
1980	662	22.8	22.6	792	23.4	33
1981	859	29.1	26.2	902	24.3	36
1982	1,120	30.3	31.3	1,060	26.3	40
1983[1]	1,413	26.2	37.3	1,233	28.3	43
1985[1]	2,159					
1989[1]	3,190	[2] 10.3				

[1] Projections based on fiscal years.

[2] Average projected annual growth from 1984 to 1989.

Source: HCFA/Bureau of Data Management and Statistics.

HOSPICE CARE

Public Law 97-248 authorizes Medicare part A coverage for hospice care services provided to individuals who are entitled to Medicare part A benefits and who are certified to be terminally ill.

On December 16, 1983, the Health Care Financing Administration (HCFA), published regulations to implement the hospice provisions of Public Law 97-248. Among other things, the regulations establish requirements for eligibility, covered benefits, services, reimbursement procedures, and the conditions a hospice must meet to be approved for participation in the Medicare program.

Part A beneficiaries may elect to receive hospice care in lieu of most other Medicare benefits for up to two periods of 90 days each, plus an additional 30 days.

The statute provides that payment to hospice providers be equal to the costs which are reasonable and related to the cost of providing hospice care, or which are based on such other tests of reasonableness as the Secretary may prescribe, subject to a "cap amount." The cap amount for a beneficiary for a year is $6,500, adjusted annually by the Medical component of the CPI.

HCFA has implemented a prospective payment methodology for hospice care. Under this methodology, hospices would be paid one of several predetermined rates for each day a Medicare beneficiary is under the care of the hospice. The rates would vary according to the level of care furnished to the beneficiary. Total reimbursement to a hospice for care furnished to the Medicare beneficiary would vary by the length of the patient's period in the hospice program as well as by the characteristics of the services (intensity and site) program furnished to the beneficiary.

The regulations established four basic payment categories. The payment rates are national rates which are adjusted by the BLS wage index for an area. The published payment rates were:

(a) *Routine home care day.*—Routine home care day is a day on which an individual who has elected to receive hospice care is at home and is not receiving continuous home care. The routine home care rate would be paid for every day a patient is at home and under the care of the hospice regardless of the volume or intensity of the services provided on any given day as long as less than 8 hours of care are provided. Under the regulations the national rate for a home care day is $46.25. Public Law 98-617 increased the national rate to $53.17.

(b) *Continuous home care day.*—A continuous home care day is day on which an individual who has elected to receive hospice care receives hospice care consisting predominantly of nursing care on a continuous basis at home. Home health aide or homemaker services or both may also be provided on a continuous basis. Continuous home care is furnished only during brief periods of crisis and only as necessary to maintain the terminally ill patient at home. Home care would have to be provided for a period of at least 8 hours before it would be considered to fall within the category of continuous home care. The national payment amount is $358.67 for twenty-four hour care.

(c) *Inpatient respite care day.*—An inpatient respite care day is one on which the individual who has elected hospice care receives care in an approved facility on a short-term (not more than 5 days at a time) basis for the respite of his caretakers. The national payment rate is $55.33.

(d) *General inpatient care day.*—A general inpatient care day is one on which an individual who has elected hospice care receives general inpatient care in an inpatient facility for pain control or acute or chronic symptom management which cannot be managed in other settings. Care may be provided in a hospital, skilled nursing facility or inpatient unit of a freestanding hospice. The national payment rate is $271.00.

SKILLED NURSING FACILITY

In general, skilled nursing facilities are reimbursed on the basis of reasonable costs subject to certain limits.

Reimbursement limits for skilled nursing facilities have been established for inpatient general routine service costs. Limits are set at 112 percent of the average labor-related and average non-labor related costs of each comparison group.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) required the Secretary to establish a single payment limit for both freestanding and hospital-based skilled nursing facilities (SNF's) based on the cost experience of freestanding facilities, subject to adjustments for hospital-based SNF's deemed appropriate. The provision was to be effective October 1, 1982. The Social Security Amendments of 1983 (Public Law 98-21) postponed the effective date for 1 year. This provision was further modified in Public Law 98-369 (the Deficit Reduction Act of 1984). The law provides that for cost reporting periods beginning on or after October 1, 1982, and prior to July 1, 1984, hospital-based facilities and freestanding facilities would be reimbursed on the same basis used to calculate reimbursement limits that have been in effect prior to the passage of the Tax Equity and Fiscal Responsibility Act (i.e., going back to prior law). For cost reporting periods beginning on or after July 1, 1984, separate limits would continue to be established for freestanding facilities in urban and rural areas at 112 percent of the mean operating costs of urban and rural freestanding facilities, respectively. Limits for urban or rural hospital-based facilities would be set at the appropriate freestanding facility limit plus 50 percent of the difference between the freestanding facility limit and 112 percent of the mean operating costs of hospital-based facilities. Adjustments to take account of administrative costs for hospital based facilities would be allowed as an add on. As of publication, none of the above provisions have yet been implemented. In addition, Public Law 98-21 required the Secretary to report by December 31, 1983 on the effect of the implementation of the TEFRA single-rate provision on hospital-based SNF's, given the difference (if any) in the patient populations served by such facilities and by freestanding SNF's. Further, the Secretary was required to report by the end of 1983 on the impact of hospital prospective payment on SNF's. As of January 1, 1984, the report had not been issued.

Public Law 97-248 also required the Secretary to develop, in consultation with the Senate Finance Committee and the House Committee on Ways and Means, proposals for the prospective reimbursement of SNF's. The Secretary was required to report on these proposals to Congress by December 31, 1982. Public Law 98-21 further delayed the deadline for the report to December 1983. The report was not sent. Public Law 98-369 further delayed the requirement. The Secretary was required to submit to Congress by August 1, 1984, the results of the study required in TEFRA. In addition the Secretary was required to report to Congress by December 1, 1984, on the range of options available for prospective payment of skilled nursing facilities. As of publication, none of the required reports have been received by Congress.

UTILIZATION AND QUALITY CONTROL PEER REVIEW PROGRAM

The Social Security Amendments of 1972 provided for the establishment of Professional Standards Review Organizations (PSRO's) throughout the country which were charged with the comprehensive and on-going review of services provided under Medicare, Medicaid, and the maternal and child health programs. PSRO's determined, for purposes of reimbursement under these programs, whether services are: (1) Medically necessary, (2) provided in accordance with professional standards, and (3) in the case of institutional services, rendered in the appropriate setting.

The Tax Equity and Fiscal Responsibility Act of 1982 repealed the existing PSRO program and established a new program. Under this new program, a Peer Review Organization (PRO) is defined as an entity which is either composed of a substantial number of the licensed doctors of Medicine and osteopathy practicing in the area or has available to it sufficient numbers of such physicians so that adequate peer review of various Medical services can be assured.

The PRO program is similar to the PSRO program with the following important distinctions. Under the new program, eligible organizations may be either for-profit or non-profit and may be either physician groups or have available to them sufficient physicians to perform review. The Secretary is required to consolidate existing PSRO geographic areas. Each State has been designated as a single area, plus the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and American Samoa (54 PRO's). The Secretary is required to enter into a contract with a peer review organization for each geographic area. Priority consideration must be given to physician-sponsored organizations; payor organizations were excluded from participation until October 1, 1984. Contracts with provider or provider-affiliated organizations are prohibited though subcontracts with such entities are permitted. As of January 1, 1985, the Secretary had entered into agreements with 53 physician-sponsored organizations and one fiscal intermediary. The law provides that contracts are for an initial period of 2 years, renewable biennially. Contracts with PRO's must specify objectives to be achieved for each PRO over the contract period. Performance will be rated in terms of meeting these goals.

These entities may review, subject to the provisions of the contracts, the professional activities of physicians, other practitioners and institutional and noninstitutional providers in rendering services to Medicare beneficiaries. The review is to focus on the necessity and reasonableness of care, quality of care, and the appropriateness of the setting. The determinations of the peer review organizations would ordinarily be binding for purposes of determining whether benefits should be paid.

States are authorized to contract with review organizations for Medicaid review and 75 percent Federal matching is authorized for such purpose.

Hospitals were required to sign an agreement with a PRO in the area on or before November 15, 1984, as a condition of receiving payment under the Medicare program.

FINANCING

Background

The Medicare part A Hospital Insurance Trust Fund (HI) finances inpatient hospital, skilled nursing facility, home health and other institutional services. The part B Supplementary Medical Insurance Trust Fund (SMI) finances principally physician and hospital outpatient services.

The Hospital Insurance Trust Fund is financed primarily through Social Security payroll tax contributions paid by employers, employees and the self-employed. The payroll tax rate for calendar year 1984 was 1.3 percent of earnings up to $37,800 per employee and for 1985 is 1.35 percent of $39,600 per employee. An equal contribution rate is paid by the employer. Table 8 shows the contribution rates and maximum taxable earnings for both HI and the old-age, survivors and disability insurance (OASDI) programs.

TABLE 8.—CURRENT LAW SOCIAL SECURITY PAYROLL TAX RATES FOR EMPLOYERS AND EMPLOYEES EACH AND TAXABLE EARNINGS BASES

Calendar year	Employee and employer rates, each (percent)			Taxable earnings base	Maximum HI tax
	OASDI combined	HI	OASDHI combined		
1977	4.95	0.90	5.85	$16,500	$148.50
1978	5.05	1.10	6.05	17,700	194.70
1979	5.08	1.05	6.13	22,900	240.45
1980	5.08	1.05	6.13	25,900	271.95
1981	5.35	1.30	6.65	29,700	386.10
1982	5.40	1.30	6.70	32,400	421.20
1983	5.40	1.30	6.70	35,700	464.10
1984	5.70	1.30	7.00	37,800	491.40
1985	5.70	1.35	7.05	39,600	534.60
1986	5.70	1.45	7.15	[1]	[1]
1987	5.70	1.45	7.15	[1]	[1]
1988	6.06	1.45	7.51	[1]	[1]
1989	6.06	1.45	7.51	[1]	[1]
1990	6.20	1.45	7.65	[1]	[1]

[1] The maximum earnings subject to the tax increases each year in accordance with the increase in average earnings.

Those who are uninsured under part A may elect to enroll by paying the full cost of coverage. The cost of the monthly premium for calendar year 1985 is $174.

Part B, which is voluntary, is financed from premiums paid by the aged, disabled and chronic renal disease enrollees and from the general revenues. The premium rate is derived annually based upon the projected costs of the program for the coming year. Under prior law, the premium rate was changed on July 1 of each year. The Social Security Amendments of 1983 (Public Law 98-21) moved the premium increase date to January 1 of each year to coincide with the changed date for the annual Social Security cash benefit cost-of-living (COLA) increase.

Ordinarily, the premium rate is the lower of: (1) an amount sufficient to cover one-half of the costs of the program for the aged or (2) the current premium amount increased by the percentage by which cash benefits were increased under the COLA provisions of the Social Security program. Premium income, which originally financed half of the costs of part B, had declined—as a result of this formula—to less than 25 percent of total program income.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248), temporarily suspended the COLA limitation for 2 years—calendar years 1984 and 1985. During this period, enrollee premiums will be allowed to increase to amounts necessary to produce premium income equal to 25 percent of program costs for elderly enrollees. The Deficit Reduction Act of 1984 (Public Law 98-369) extended the TEFRA provision through calendar years 1986 and 1987. The premium beginning January 1, 1985, is $15.50 per month.

As noted above, the premiums paid by part B enrollees finance only one-quarter of the cost of the program. The remaining cost is financed from the Federal general revenues.

FINANCIAL STATUS OF THE TRUST FUNDS

The Hospital Insurance Trust Fund balances are dependent upon the income to the HI trust fund primarily through payroll taxes exceeding the outlays for Medicare benefits and administrative costs. Outlays are affected by increases in inpatient hospital expenditures which have been rising at a faster rate than the income to the HI trust fund. Table 9 shows the percentage increase in Medicare outlays from fiscal year 1967 to fiscal year 1984 and the CBO projections from 1985 to 1990. According to the Congressional Budget Office, hospital costs attributable to Medicare beneficiaries are projected to increase over the 1985-90 period at an average annual rate of 10.1 percent, while income is projected to grow at an annual rate of 7.6 percent.

Due to this excess of outlays over income, the HI trust fund faces serious financial difficulties in the future. Under current policies, the trust fund is expected to be depleted in the early to middle part of the next decade.

TABLE 9.—MEDICARE OUTLAYS, FISCAL YEARS 1967-90

Fiscal year	Part A		Part B		Total	
	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)
1967	2,597		799		3,396	
1968	3,815	46.9	1,532	91.7	5,347	57.4
1969	4,758	24.7	1,840	20.1	6,598	23.4
1970	4,953	4.1	2,196	19.3	7,149	8.4
1971	5,592	12.9	2,283	4.0	7,875	10.2
1972	6,276	12.2	2,544	11.4	8,820	12.0
1973	6,842	9.0	2,637	3.7	9,479	7.5
1974	8,065	17.9	3,283	24.5	11,348	19.7
1975	10,612	31.6	4,170	27.0	14,782	30.3
1976 [1]	12,579	18.5	5,200	24.7	17,779	20.3
1977	15,207	20.9	6,342	22.0	21,549	21.2
1978	17,862	17.5	7,350	15.9	25,211	17.0

TABLE 9.—MEDICARE OUTLAYS, FISCAL YEARS 1967–90—Continued

Fiscal year	Part A		Part B		Total	
	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)
1979	20,343	13.9	8,805	19.8	29,148	15.6
1980	24,287	19.4	10,746	22.1	35,034	20.2
1981	29,248	20.4	13,240	23.2	42,488	21.3
1982	34,864	19.2	15,559	17.5	50,423	18.7
1983	38,551	10.6	18,317	17.7	56,868	12.8
1984	42,295	9.7	20,374	11.2	62,669	10.2
1985 (est.)	47,931	13.3	22,433	10.1	70,364	12.3
1986 (est.)	51,485	7.4	25,760	14.8	77,245	9.8
1987 (est.)	56,912	10.5	29,268	13.6	86,180	11.6
1988 (est.)	62,967	10.6	33,532	14.6	96,499	12.0
1989 (est.)	69,799	10.9	38,205	13.9	108,004	11.9
1990 (est.)	77,376	10.9	43,453	13.7	120,829	11.9

---

[1] In the transition quarter from July to October 1976 (when the beginning of the Federal fiscal year was changed), outlays were $4,805 million. These outlays do not appear in the table.

Source: 1983 Annual Report of the Board of Trustees: Federal Hospital Insurance Trust Fund and Supplementary Medical Insurance Trust Fund and CBO projections for 1985 through 1990 under current law.

Interfund borrowing

The Old-Age and Survivors Trust Fund has borrowed $12.4 billion from the HI trust fund.

The OASI trust fund was first authorized to borrow from the HI trust fund and the Disability Insurance (DI) Trust Fund in Public Law 97-123. The Social Security Amendments of 1983 (Public Law 98-21) extended the interfund borrowing authority from 1982 through 1987.

Under the law, loans would be required to be repaid at the earliest possible date, but not later than 1989. OASDI could not borrow from HI in any month in which the HI trust fund ratio is under 10 percent. In 1983 through 1987, OASDI would repay loans from HI whenever the OASDI fund ratio at the end of the year exceeded 15 percent. In 1988 through 1989, OASDI would repay HI the loan balance outstanding at the end of 1987 plus outstanding interest. On January 31, 1985, the OASI fund repaid $1.8 billion in principal on the loan to the HI fund. The repayment is scheduled to be completed with payments in January of 1986 and 1987.

Supplementary medical insurance

Because the Supplementary Medical Insurance Trust Fund (SMI) is financed through beneficiary premiums and the general revenues, it does not face the prospect of depletion as does the HI trust fund. However, the rapidly rising cost of health care is placing a heavy burden on the SMI trust fund—causing beneficiary premiums to rise and increasing the Federal deficit.

CBO estimates that SMI outlays will increase at an annual rate of 13.5 percent from 1985 through 1990. The share of general revenues necessary to finance the SMI trust fund will rise from 3.6 percent to 5.0 percent between 1985 to 1990. By share of general revenues, it is meant the amount of total revenues less revenues earmarked for certain functions (e.g., payroll taxes).

HI trust fund income, outlays, and balance

Table 10 shows the projections of the Congressional Budget Office under its baseline, low and high growth alternatives and the administration for the HI trust funds with respect to income, outlays and balances for the years 1985 through 1990.

The CBO and administration estimates differ for several important reasons. First, the underlying economic assumptions are different (see Section 5). Second, the administration estimates incorporate into current law the budget proposals which will be implemented by regulation. These include the assumption that prospective payment rates for fiscal year 1986 would be frozen at the level for 1985. Third, CBO incorporates the actual interfund borrowing repayments to HI on January 31, 1985 into trust fund income. The administration numbers reflect these transfers only in the trust fund balance and the 1985 transfer will be $424 million higher than shown. Fourth, the administration assume that DRG rates will be increased after fiscal year 1986 at a rate equal to market basket inflation while CBO assumes market basket plus 0.25 percent.

The projections shown in table 8 for the hospital insurance component of Medicare are particularly uncertain after 1985 because of uncertainties concerning future hospital reimbursements. The Social Security Amendments of 1983 instituted a prospective reimbursement system for inpatient hospital services. For 1984 and 1985, the Social Security Amendments gave guidance concerning the setting of the DRG rates.

During the first two years of the new prospective payment system, the DRG rates were to be budget neutral. The Deficit Reduction Act of 1984 established a maximum cap on the rate of increase of DRG rates in 1986. After 1986, the DRG rates are to be set by the Secretary of Health and Human Services, advised by an independent commission. For 1987–1990 the CBO baseline assumes that DRG rates will grow by 0.25 percentage points more than the increase in the cost of a market basket of goods and services typically purchased by hospitals. In addition, hospital insurance outlays also rise with projected increases in eligible beneficiaries and hospital utilization.

Under the baseline projections, from 1985 to 1990, outlays increase at an annual rate of 10.1 percent while income increases at an annual rate of 7.6 percent. This leaves a projected balance in the HI trust fund at the end of 1990 of $50.2 billion.

Under the low growth projections, outlays increase at an annual rate of 8.4 percent while income grows at an annual rate of 5.0 percent from 1985 to 1990. This difference of 3.4 percent between outlays and income compared to the baseline difference of 2.5 percent, causes the balance at the end of fiscal year 1990 to be lower: $38.3 billion compared to the baseline balance of $50.2 billion.

Under the high growth projections outlays increase at an annual rate of 12.2 percent compared to income growth of 10.2 percent per year. This leaves a balance of $56.7 billion at the end of fiscal year 1990. The perceived financial status of the HI trust fund in the future is dependent upon the estimated outlay growth compared to revenue growth. A small difference in the assumptions underlying those projections can create large differences in when the HI trust fund will be depleted and upon the amounts needed to keep the trust fund balances positive through a given time period.

TABLE 10.—PROJECTIONS FOR THE HOSPITAL INSURANCE TRUST FUND, BUDGET AUTHORITY, AND OUTLAYS, FISCAL YEARS, UNDER CBO BASELINE, LOW AND HIGH GROWTH SET OF ECONOMIC ASSUMPTIONS AND ADMINISTRATION ASSUMPTIONS, PRESENT LAW

[In billions]

	1985	1986	1987	1988	1989	1990
CBO baseline:						
Total outlays	47.9	51.5	56.9	63.0	69.8	77.4
Income [1]	53.1	62.5	68.4	67.3	71.6	76.7
Year-end-balance	22.3	33.3	44.8	49.2	51.0	50.2
Start of year balance, as percent of outlays	35.9	43.4	58.6	71.2	70.4	65.8
CBO low growth:						
Total outlays	47.9	51.4	56.5	61.3	66.3	71.8
Income [1]	52.9	62.2	66.7	62.3	64.7	67.5
Year-end-balance	22.1	32.9	43.1	44.1	42.5	38.3
Start of year balance, as percent of outlays	35.9	42.9	58.2	70.3	66.5	59.2
CBO high growth:						
Total outlays	47.9	51.6	57.5	64.7	73.6	85.0
Income [1]	53.1	63.1	70.0	70.4	77.1	86.2
Year-end-balance	22.3	33.7	46.2	51.9	55.4	56.7
Start of year balance, as percent of outlays	35.9	43.2	58.7	71.5	70.6	65.3
Administration:						
Total outlays	48.9	49.4	53.3	58.9	65.0	71.6
Income [1]	51.3	57.5	63.5	69.7	75.2	81.1
Year-end-balance	21.0	33.8	50.3	61.1	71.2	80.7
Start of year balance, as percent of outlays	35	42	64	85	94	99

[1] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances, and certain general fund transfers. In addition, it also reflects the interfund borrowing repayments from OASI to HI—$1,824 million in 1985, $4,800 million in 1986, and $5,813 million in 1987.

Source: Congressional Budget Office and Office of the Actuary, SSA.

Sensitivity of HI trust funds balances to different outlay growth assumptions

Table 11 presents alternative projections of Hospital Insurance (HI) trust fund outlay growth through 1990. All of these projections assume the economic projections underlying the baseline path. The alternatives all are arranged in the table from least to most growth. The alternatives are of two forms. Under one form, hospital outlays are projected to grow by 1, 2, or 3 percent less and 1, 2 or 3 percent more than the baseline in each year. These changes could be due to variations in hospital rate increases, admission patterns, intensity or change in case mix, or technology changes. The percentage refers to entire hospital outlays and not just those outlays covered by the prospective payment system. The second alternative form includes two options which are specific to the prospective payment hospitals and hospitals in waivered States. The two alternatives included here are 1 percentage point higher and lower each year than currently assumed in baseline. Baseline assumes an increase of MB + .25 in 1986 and beyond, so that the two alternatives are MB −.75 and MB + 1.25.

Income to the trust fund is the same (except for interest which varies by size of trust fund balance) in each projection. Under the least growth alternative, expenditures are $67.1 billion in fiscal year 1990 compared to $77.4 billion in the baseline projection. Trust fund balances are $31 billion greater in this alternative.

Conversely, under the alternative with the most growth, expenditures are $11.6 billion higher and trust fund balances $36 billion smaller in 1990.

TABLE 11.—ALTERNATIVE PROJECTIONS OF HOSPITAL INSURANCE OUTLAY GROWTH AND YEAR-END BALANCES[1]

[By fiscal year, in billions of dollars]

	1985	1986	1987	1988	1989	1990
3 percent less hospital outlays each year:						
Outlays	47.9	50.0	53.8	57.8	62.3	67.1
End-of-year balance	22.3	34.1	49.0	59.1	69.8	81.6
2 percent less hospital outlays:						
Outlays	47.9	50.5	54.8	59.5	64.7	70.4
End-of-year balance	22.3	33.6	47.3	55.6	63.3	71.1
1 percent less hospital outlays:						
Outlays	47.9	51.0	55.9	61.2	67.2	73.8
End-of-year balance	22.3	33.1	45.7	51.9	56.7	60.3
Market basket −.75:						
Outlays	47.9	51.2	56.3	61.9	68.3	75.3
End-of-year balance	22.3	32.9	44.9	50.4	54.0	55.7
Baseline:						
Outlays	47.9	51.5	56.9	63.0	69.8	77.4
End-of-year balance	22.3	33.3	44.8	49.2	51.0	50.2
Market basket +1.25:						
Outlays	47.9	51.7	57.5	64.1	71.5	79.7
End-of-year balance	22.3	32.4	43.2	46.2	46.0	42.4
1 percent more hospital outlays:						
Outlays	47.9	52.0	58.0	64.8	72.5	81.1
End-of-year balance	22.3	32.1	42.3	44.5	43.1	37.7

TABLE 11.—ALTERNATIVE PROJECTIONS OF HOSPITAL INSURANCE OUTLAY GROWTH AND YEAR-END BALANCES[1]—Continued

[By fiscal year, in billions of dollars]

	1985	1986	1987	1988	1989	1990
2 percent more hospital outlays:						
Outlays	47.9	52.5	59.1	66.6	75.2	85.0
End-of-year balance	22.3	31.6	40.6	40.8	36.1	26.0
3 percent more hospital outlays:						
Outlays	47.9	52.9	60.2	68.5	78.1	89.0
End-of-year balance	22.3	31.1	38.9	36.9	28.9	14.0

[1] Projections assume economic assumptions underlying CBO's baseline path.

Source: Congressional Budget Office.

Projections to 1995

In September 1984, the Congressional Budget Office presented testimony to the Committee on Ways and Means in which they projected HI hospital outlay revenues, and trust fund balances. In September, CBO assumed the following:

"The basic cost of providing hospital care is estimated from the cost of a market basket of goods and services purchased by hospitals. Labor costs, which account for almost two-thirds of the total market basket, are assumed to grow at an average rate of more than 6 percent per year. The costs of capital goods and supplies—the remaining items in the market basket—are assumed to grow at the same rate as consumer prices in general. * * *

"In 1986, the increase in the DRG rate cannot exceed the market basket increase plus 0.25 percent, as specified by the Deficit Reduction Act. After 1986, the Secretary will determine increases in the DRG rates in consultation with the Prospective Payment Commission. CBO's projected HI increases beyond 1986 assume a growth rate equal to the market basket rate plus 1 percent, following the convention used by the HI actuaries. The additional 1 percent is designed to allow for improvements in medical technology. These estimated increases in the DRG rate can be thought of as the increases in the unit costs of covered hospital activities.

"HI outlays will grow more rapidly than these unit costs, however. Additional annual increases in HI outlay growth stem from increases in program enrollment and in hospital admission rates. These are projected to be 2 percent and 1 percent per year, respectively. Finally, CBO's projections include another cost increase of 1.5 percent per year to allow for other growth in Medicare hospital reimbursement not specifically limited by the Secretary. This growth, for example, could be the result of changes in hospital admitting practices that change the mix of procedures performed, thereby increasing the average cost per admission. In response to the implementation of the DRG system, this residual growth is projected to be slightly lower than in past experience. Combined, these yield an average total outlay growth of 11.8 percent per year."

The prime difference in CBO's latest projections is to assume that the DRG rates will be market basket plus 0.25 instead of 1.

In the absence of CBO projections to 1995, committee staff extrapolated the lastest CBO projections from 1991 to 1995. This extrapolation was done by assuming that the rate of growth in outlays between 1989 and 1990 would remain the same over the next 5 years. A similar assumption was made with respect to income. These results are shown in the last row of table 12. To emphasize the large degree of error involved in making projections to 1995, the projections are shown in a $20 billion range.

The projections in table 12 indicate that insolvency of the HI trust fund is postponed until the early to middle portion of the 1990's. It should be emphasized that even assuming a 1 percent lower or higher hospital outlay growth path relative to the baseline does not change appreciably the estimated date when the HI trust fund is exhausted. Under these committee staff extrapolations of CBO projections to 1990, the HI fund is exhausted in 1995 under the baseline path; 1993 under a 1 percent higher outlay growth rate than assumed in the baseline path; and in 1998 under a 1 percent lower growth rate in outlays relative to the baseline.

TABLE 12.—PROJECTIONS OF HI OUTLAY AND TRUST FUND BALANCES TO 1995 BASED UPON CBO's, JANUARY 1985 PROJECTIONS

	Baseline path		Baseline path—Assuming 1 percent less increase		Baseline path—Assuming 1 percent more increases	
	Outlays	Year-end balance	Outlays	Year-end balance	Outlays	Year-end balance
Original September testimony:						
1989	74	51	70	60	77	41
1990	82	48	78	62	87	33
1995	146	−56	132	21	160	−138
January 1985 estimates:						
1989	70	51	67	57	73	43
1990	77	50	74	60	81	38
1995 [1]	120 to 140	0 to −20	110 to 130	40 to 60	130 to 150	−70 to −90

[1] Estimates made by committee staff by extrapolating the same growth rate between 1989 and 1990 assumed by CBO in this most recent projection throughout the period from 1991 to 1995 for both income and outlays.

However, all of these estimates are highly uncertain. As CBO indicated in their September testimony:

"Estimates of the financial status of the trust fund are very sensitive to the projected growth rate of outlays. Unfortunately, recent reimbursement patterns to hospitals have heightened our uncertainty about such projections.

* * * * * * *

"For projection purposes, the problem is to separate out temporary adjustment factors from long-term improvements in the hospital cost picture. Because the prospective payment system is new, hospitals can be expected to go through some temporary adjustments that involve learning the mechanics of the system, understanding where the rate structure is most binding, and so forth. These factors, which might initially hold down HI outlays, should lessen over time and would therefore not affect the long-run performance of the system.

"On the other hand, many changes have been occuring in the hospital industry that might have more enduring effects on cost growth. For example, in partial response to consumer, business, and government concerns over rising health care costs, many new health organizations are being formed. Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and state and local government cost control plans are growing in size and importance. These groups could affect both hospital admissions rates and hospital costs. Simultaneously, during the last year there has been an unexpected slip in the rate of increase of hospital admissions for those age 65 and older. This decline in the rate of growth of admissions is the opposite of what many observers thought would result from DRG pricing—namely, that hospitals would increase admissions to compensate for lower per-admission reimbursements. All of these factors make forecasting the growth in health-care costs over the next decade a very uncertain task.

"Several examples of uncertainty in the forecasts can be cited—namely, that arising from DRG rate increases, that arising from how the system and other factors affect hospital use, and, to a lesser extent, that arising from the underlying macroeconomic forecasts.

DRG rate increases

"While rate increases for 1985 are now known, those for 1986 and beyond remain uncertain. The Deficit Reduction Act caps the 1986 growth on the DRG rate at that of the market basket plus 0.25 percent, and the CBO baseline assumes that the actual increase will equal this cap. After 1986, no limits are specified by law, and the Secretary of Health and Human Services must specify the annual changes. The Secretary thus has discretionary power over future increases, although payments will almost certainly reflect movements in aggregate hospital costs.

Effect of DRGs and other factors on hospital use

"Perhaps the greatest uncertainty, however, revolves around how hospitals react to the DRG system and other pressures in terms of hospital utilization, admitting practices, and pattern of admissions. For example, hospitals could switch certain diagnoses from out-patient to in-patient care, or vice versa. Hospitals could also continue a movement toward a more complex caseload mix, a trend that has already been observed. With the system not yet fully in place, however, it is still too early to determine the effect of DRGs on hospital behavior."

RECENT LEGISLATIVE CHANGES

Summarized in tables 13–16 are the legislative changes made in Medicare in 1981, 1982, 1983, and 1984. The changes were incorporated in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35), the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248), the Social Security Amendments of 1983 (Public Law 98-21), Deficit Reduction Act of 1984 (Public Law 98-369) and Public Law 98-617.

Included in the tables are the most recent Congressional Budget Office estimates of the impact of the provisions. The annual savings have not been totaled because of the differences in underlying economic assumptions in each year's estimates. In addition, some of the provisions have not yet been implemented.

Overall, CBO estimated in January 1985, that HI outlays have been reduced by $5.7 billion, $7.3 billion and $9.1 billion for fiscal years 1986 to 1988 respectively. This is a reduction of 11.5 for 1988 compared to pre-1981 policies. Part B outlays are reduced by $2.9 billion, $3.2 and $3.4 billion for fiscal years 1986 to 1988 respectively. For 1988, this is a reduction of 7.2 percent compared to pre-1981 policies.

The major legislative changes enacted in 1984 are described in the section following table 16.

TABLE 13.—CONGRESSIONAL BUDGET OFFICE[1] REVISED ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1981 (OMNIBUS BUDGET RECONCILIATION ACT OF 1981)

[In millions of dollars]

January 1982 estimates	Fiscal year		
	1982	1983	1984
Provisions affecting hospital insurance:			
Making part A deductible and coinsurance more current	−185	−305	−360
Less frequent SNF surveys [2]	−4	−4	−4
Repeal of temporary delay in periodic interim payments	−692	0	0
Making part A coinsurance current with the year in which services are furnished	−5	−10	−10
Set section 223 limits on reimbursements to hospitals at 108 percent	−75	−105	−125
Limit nursing differential to 5 percent	−95	−105	−130
Elimination of occupancy test for hospital long-term care	−70	−80	−90
Set section 223 limits on reimbursement to home health agencies at 45th percentile	−12	−23	−27
PSRO modifications	−5	−8	−5
Payments to promote closing and conversion of underutilized facilities [2]	−2	−7	−19
Elimination of need for occupational therapy as a basis for entitlement to home health services	−23	−27	−31
Eliminate reimbursement for free-standing alcohol detoxification facilities	(3)	(3)	(3)
Total—Hospital insurance	−1,168	−674	−801

TABLE 13.—CONGRESSIONAL BUDGET OFFICE [1] REVISED ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1981 (OMNIBUS BUDGET RECONCILIATION ACT OF 1981)—Continued

[In millions of dollars]

January 1982 estimates	Fiscal year		
	1982	1983	1984
Provisions affecting supplementary medical insurance:			
Increase in part B deductible and elimination of carryover from previous year	−175	−265	−295
Civil money penalties	−7	−7	−7
Elimination of unlimited open enrollment	−9	−10	−11
Limitation on reasonable charge for outpatient services	−15	−23	−27
Incentive reimbursement rate for renal dialysis services [4]	−105	−130	−155
Medicare payments secondary in cases of end-stage renal disease (revenue increase)	−95	−165	−180
Total—Supplementary medical insurance	−406	−600	−675
Total HI and SMI	−1,574	−1,274	−1,476

[1] This table reflects estimates from the Congressional Budget Office which show the impact of the legislative changes enacted during 1981. The numbers are not extremely sensitive to economic conditions. Thus any changes to the numbers from earlier estimates represent different assumptions.

[2] As of January 1, 1985, the provision had not been implemented.

[3] Negligible.

[4] CBO and Administration estimate that was used during the 1981 reconciliation process.

Note.—Minus (−) indicates an expenditure reduction or revenue increase, plus (+) indicates an expenditure increase or revenue decrease.

TABLE 14.—CONGRESSIONAL BUDGET OFFICE [1] REVISED OUTLAY ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1982 (TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982)

[In millions of dollars]

January 1983 estimates	Fiscal year				
	1983	1984	1985	1986	1987
Medicare secondary for older workers	−88	−265	−451	−680	−780
80 percent radiologist/pathologist (medicaid cost of $90 million)	−150	−210	−245	−280	−315
Elimination of nursing differential	−95	−110	−125	−145	−165
Hospital-based physicians	−6	−40	−75	−110	−125
Part B premium as a constant percentage of costs (medicaid cost of $155 million)	−35	−240	−550	−600	−650
Hospital reimbursement changes [1] (medicaid savings of $460 million)	−895	−2,380	−4,610	−3,060	−1,740
Elimination of private room subsidy	−35	−75	−80	−85	−90

TABLE 14.—CONGRESSIONAL BUDGET OFFICE [1] REVISED OUTLAY ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1982 (TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982)—Continued

[In millions of dollars]

January 1983 estimates	Fiscal year				
	1983	1984	1985	1986	1987
Single reimbursement limit for skilled nursing facilities and home health agencies	−20	−53	−62	−69	−77
Elimination of duplicate payments for outpatient services	−75	−135	−175	−210	−255
Audit and medical claims review	−85	−215	−215	−130	0
Temporary delay in periodic interim payments	−750	−100	870	0	0
Reimbursement of assistants at surgery	−24	−63	−113	−170	−195
Prohibition of payments for ineffective drugs	0	0	0	0	0
Medicare payments to HMO's	0	0	0	0	0
Technical corrections	0	0	0	0	0
Hospice care	1	1	−16	−40	0
Coverage of extended care services	0	0	0	0	0
Percentage arrangements (not for hospital-based physicians)	0	−17	−20	−23	−26
Prohibit payment for Hill-Burton care	−15	−17	−20	−23	−26
Prohibiting payment for antiunionization activities	0	0	0	0	0
Lesser of cost or charges	0	0	0	0	0
Extend medicare proficiency exam	0	0	0	0	0
Access to books and records	0	0	0	0	0
Private sector utilization review	0	0	0	0	0
Part B enrollment	(2)	(2)	(2)	(2)	(2)
Subtitle C—Utilization and quality control peer review	0	−15	−20	−20	−25
HI tax for Federal employees (outlay savings)	−116	−160	−174	−195	−207
Total medicare provisions	−2,388	−4,094	−6,081	−5,840	−4,676

---

[1] Assumes the "target" reimbursement system is not extended after 3 years.

[2] Negligible cost.

TABLE 15.—CONGRESSIONAL BUDGET OFFICE OUTLAY AND INCOME ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1983 (THE SOCIAL SECURITY AMENDMENTS OF 1983)

[In millions of dollars]

	1983	1984	1985	1986	1987	1988
Supplementary medical insurance:						
Medicare premium delay:						
SMI	113	63	−90	−202	−206	−211
HI	1	(1)	(1)	(1)	(1)	(1)
Hospital insurance outlays:						
Pass through mandatory FICA	0	150	224	150	38	7
Prospective payment system	0	0	0	(2)	(2)	(2)
Delay SNF reimbursement limit	20	22	5	3	3	4
Lower return on equity capital	−10	−90	−100	−100	−40	0
DRG Commission	0	[3]1	[3]2.4	[3]3	[3]3	[3]3
Total HI outlay changes	10	83	132	56	4	14
Hospital insurance income:						
SECA tax increase	0	377	1,262	1,434	1,605	1,670
Cover nonprofit organizations	0	216	326	397	480	605
State speedup	0	140	10	10	10	10
Military transfer credits	3,290	−70	−70	−60	−60	−60
Total HI income changes	3,290	663	1,528	1,781	2,035	2,225
Total outlay and income infusions to HI Trust Fund	3,280	580	1,396	1,725	2,031	2,211
Estimated HI Interest Income	44	386	499	634	765	902
Total annual increase in HI Trust Fund	3,324	966	1,895	2,359	2,796	3,113

[1] Less than $0.5 million.

[2] The budgetary impact cannot be estimated because the law allows the Secretary of HHS, as advised by a panel of experts, nearly unlimited discretion in setting payment rates for inpatient hospital services. Those rates could be set such that aggregate medicare outlays would increase or decrease.

[3] This provision is subject to appropriation. For fiscal year 1984, the appropriation was $1.5 million.

Source: CBO estimates based on January 1983 economic assumptions.

TABLE 16.—CONGRESSIONAL BUDGET OFFICE OUTLAY IMPACT FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1984

[In millions of dollars]

June 1984 estimates	Fiscal year—			
	1984	1985	1986	1987
Delay implementation of single limit for SNF's	20	30	35	40
Hospital rate of increase	0	0	−180	−250
Establish fee schedule for clinical lab services	−40	−240	−300	−380
(Medicaid)	(−10)	(−49)	(−57)	(−67)
Hepatitis B vaccine	3	−1	−2	−2
Physician fee freeze	−40	−720	−840	−950
(Medicaid)	(0)	(−14)	(−16)	(−18)
Limitation on certain foot services	−3	−11	−11	−12
Part B premium increase	0	0	−384	−884
Premium decrease due to other savings	0	187	246	288
(Medicaid)	(0)	(−14)	(10)	(45)
Revaluation of assets	−2	−25	−45	−70
Competitive contracting	0	−15	−25	−33
Lesser of costs and charges	0	−45	−55	−65
Coinsurance for DME	−5	−20	−25	−25
Working aged	0	−260	−380	−415
Payment rate for routine home care under hospice program (Public Law 98-617)	0	1	3	0
Medicare total	−67	−1,306	−1,825	−2,162
(Medicaid total)	(−10)	(−77)	(−63)	(−40)
Premium totals	0	187	−138	−596
Total Medicare provisions	−77	−1,196	−2,026	−2,798

Note: Savings are from legislation made in the Deficit Reduction Act of 1984, Public Law 98-369 except where noted.

1984 LEGISLATIVE CHANGES

The following describes the major legislative changes enacted into law during 1984. The budgetary impacts are shown in table 16.

1. *Removing costs of nurse anesthetists from DRG-based payments.*—Medicare's payments to hospitals under part A are based on the diagnosis of the patient and are intended to cover all the services that hospitals customarily furnish in caring for patients with a specified diagnosis. In regulations, the Department of Health and Human Services provided a temporary provision to provide for a transition with respect to payment for CRNA's billed under part B.

The new law (Public Law 98-369) removes from the definition of operating cost of inpatient hospital services, for purposes of prospective payment, cost related to services performed by CRNA's Such services will be reimbursed on a cost basis rather than under the prospective payment system for cost reporting periods beginning on or after October 1, 1984, and before October 1, 1987.

2. Prospective payment wage index.—Medicare payments to hospitals under the prospective payment system must be adjusted to reflect the hospital wage level in a hospital's geographic area relative to the national average hospital wage index.

The new law (Public Law 98–369) requires the Secretary, in consultation with the Secretary of Labor, to conduct a study to develop an appropriate index to adjust the prospective payment amounts to reflect area differences in average hospital wage levels, taking into account wage differences of full-time and part-time workers. The Secretary is required to report the results of the study to Congress within 30 days of enactment.

The Secretary is required to adjust hospital payment amounts for cost reporting periods beginning on or after October 1, 1983, to reflect any changes in the wage index as a result of the study, but adjustments in the payment will not be made for the first such year until the succeeding cost reporting period.

The Secretary is directed to conduct a study, and include in the final report, proposed criteria by which an adjustment could be made in a hospital's wage index if such index did not accurately reflect the hospital wage levels in the levels in the labor market area serving the hospital.

3. Skilled nursing facility reimbursement.—TEFRA required the Secretary to establish a single payment limit for both freestanding and hospital-based skilled nursing facilities (SNF's), effective October 1, 1982. Prior to that time, separate limits were established for the two types of facilities.

In the Social Security Amendments of 1983, the effective date of the single-limit requirement was postponed to October 1, 1983. In addition, the Congress required the Secretary to report by December 31, 1983, on the effect of the single-rate provision on hospital-based SNF's. Further, the Secretary was required to report by the end of 1983 on the impact of hospital prospective payment on SNF's.

The new law (Public Law 98–369) requires that, for cost reporting periods beginning on or after October 1, 1982, and prior to July 1, 1984, hospital-based and freestanding SNF's are to be paid on the same basis used to calculate reimbursement limits that had been in effect prior to the passage of TEFRA.

For cost reporting periods beginning on or after July 1, 1984, separate limits will continue to be established for freestanding facilities in urban and rural areas at 112 percent of mean operating costs of urban and rural freestanding facilities, respectively. Limits for urban or rural hospital based facilities will be set at the appropriate freestanding facility limit plus 50 percent of the difference between freestanding facility limits, and 112 percent of mean operating costs for hospital-based facilities.

The Secretary is required to submit to Congress, by August 1, 1984, the results of the study required by TEFRA. In addition, the Secretary is required to report by December 1, 1984, on the range of options available for prospective payment of SNF's.

4. Limitation on increase in hospital costs per case.—The Social Security Amendments of 1983 (Public Law 98–21) provided for the establishment of a prospective payment system for certain hospitals to be phased in over a 3-year period. During the transitional period, a portion of a hospital's payments will be based on the new Federal prospective payment rates and a portion on each hospital's own cost base. For fiscal years 1984 and 1985 payment amounts from the previous fiscal years were to be increased by market basket plus 1 percentage point. For fiscal years beginning on or after October 1, 1986, the rate of increase is left to the discretion of the Secretary.

Hospitals and units exempted from the prospective payment system are paid on the basis of historical costs subject to the existing rate of increase limits, which provided for an annual rate of increase of MB plus 1 percentage point. For accounting years beginning on or after October 1, 1986, the rate of increase is left to the discretion of the Secretary.

The new law (Public Law 98-369) will limit for the two hospital cost reporting periods beginning on or after October 1, 1984, the rate of increase applicable to hospitals. In fiscal year 1985, the rate of increase will be market basket plus one-quarter of 1 percentage point. However, budget neutrality continues to apply in fiscal year 1985. In fiscal year 1986, the rate of increase may not exceed the market basket plus one-quarter of 1 percentage point. The Secretary, taking into account the recommendations of the Prospective Payment Assessment Commission, will continue to have authority to establish a rate of increase, as under current law, but not more than market basket plus one-quarter of 1 percentage point during the applicable period.

The law also provides that the rate of increase for exempted hospitals and exempted hospital units will not exceed market basket plus one-quarter of 1 percentage point in the first year or the second year.

5. Classification of certain rural hospitals.—Public Law 98-21 provided for the establishment of a prospective payment system which is to be phased in over a 3-year transition period. A portion of the total prospective payment will be based on the hospital's specific rate and an increasing portion on the Federal rate during the transition. Different Federal rates are calculated for hospitals located in rural areas and hospitals located in urban areas.

Urban areas are metropolitan statistical areas or New England county metropolitan areas as well as five specified counties in New England. All other areas are rural. The determination as to whether or not an area is urban or rural is made by the Office of Management and Budget.

The new law (Public Law 98-369) provides that hospitals located in counties redesignated as rural since enactment of the prospective payment system will be allowed a 2-year transition to the rural rates. In the first year, the hospital is paid the rural rates plus two-thirds of the difference between its rural and urban rate. In the second year, it is paid the rural rate plus one-third the difference between the rural and the urban rates. The provision is effective with respect to cost reporting periods beginning on or after October 1, 1983.

The law specified that a hospital located in an MSA will be deemed to be in the region in which the largest number of the hospitals are located or, at the option of the Secretary, the region which accounts for the majority of the Medicare discharges. The provision is effective with respect to cost reporting periods beginning on or after October 1, 1983.

The law permits a rural hospital to appeal to the Secretary to be classified as a rural referral center, based on the similarity of its operating characteristics with those of a typical urban hospital in the same region. The provision is effective for cost reporting periods beginning on or after October 1, 1984.

6. Payment for outpatient diagnostic laboratory tests.—Under prior law, diagnostic laboratory services for ambulatory patients were reimbursed by Medicare (subject to the part B deductible and coinsurance) on the basis of reasonable charges when furnished by an independent laboratory or physician. Payment for such services to hospital outpatients was on the basis of the lower of charges or reasonable cost. Certain limitations were applied on the amount Medicare and Medicaid paid a physician for laboratory services when the services were performed by an independent laboratory.

The new law (Public Law 98-369) requires the establishment of a fee schedule for all laboratory services except those provided to hospital inpatients.

A fee schedule for independent clinical labs (including hospital labs furnishing services to persons who are not patients of the hospital) and for lab tests performed in a physician's office will be established at 60 percent of the prevailing charge levels for the fee screen year beginning July 1, 1984. After three years, payment is to be made on the basis of a national fee schedule. (The fee schedule will not apply to clinical lab tests furnished by ESRD facilities and included in the ESRD composite rate.)

For hospital-based labs serving hosptial outpatients, a fee schedule based on a carrier or regional area will be established at 62 percent of the prevaling charge levels for the fee screen year beginning July 1, 1984. After the three year period, reimbursement for such hospital labs reverts to cost reimbursement unless the Congress acts to include them in a national fee schedule.

The law permits the Secretary to provide for adjustments for wage variations.

The Secretary is required to adjust the fee schedules annually to reflect changes in the Consumer Price Index for all Urban Consumers (U.S. city average).

The law permits the Secretary to make adjustments or exceptions to the fee schedule to assure adequate reimbursement for: (a) emergency lab tests needed for the provision of bona fide emergency services; (b) certain low-volume, high-cost tests where highly sophisticated equipment or extremely skilled personnel are necessary to assure quality; and (c) technological changes.

In addition, the law also makes the following changes:

(a) independent labs are required to accept Medicare assignment;

(b) services conducted by hospital labs for non-hospital patients have to be accepted on an assignment basis; and

(c) Medicare will waive the deductible and coinsurance requirements and pay 100 percent of the fee screen amount or charge, whichever is lower, for those cases which are accepted on assignment.

Physicians are permitted to bill for clinical lab services only if the physician (or another physician with whom the physician shares his practice) personally performed or supervised the performance of the test. As under current law, the physician could choose to accept or not accept assignment on a case by case basis. When a physician accepts assignment, Medicare reimbursement will be 100 percent of the fee screen amount, or charges, whichever is lower.

The law provides that Federal matching funds will not be available to the extent that a State paid more for lab tests than is paid for such tests under the Medicare fee schedule.

7. Coverage of administration of hepatitis B vaccine.—Prior law prohibited Medicare coverage of immunizations and vaccines except in the case of pneumococcal vaccine which Congress specifically covered in 1980.

The new law (Public Law 98-369) provides coverage of hepatitis B vaccine for Medicare beneficiaries at high and intermediate risk of contracting hepatitis B. It authorizes the Secretary to provide payments that reasonably reflect the cost of efficiently providing and administering hepatitis B vaccine.

8. Payment for services of teaching physicians.—There are certain conditions governing how Medicare should reimburse for patient care services performed by physicians in a teaching setting, including a formula for calculating the physician's customary charge.

The new law (Public Law 98-369) revises the formula for calculating teaching physicians' customary charges. As a result, customary charges cannot be less than 85 percent of the Medicare prevailing charges paid for services in the same locality as the teaching setting.

As of October 1, 1984, if all the "teaching physician" at a particular teaching hospital agree to take Medicare assignment for all Medicare patients they serve in that hospital then they can receive 90 percent of the Medicare prevailing charges in the same locality.

The Secretary is directed, when calculating a hospital's indirect teaching cost, to take into account not only the interns and residents it employs but also any other house staff members who participate in the hospital's teaching program but who are employed by another organization.

9. Limitation on physician fee prevailing and customary charge levels: participating physician incentives.—Under current law, Medicare pays for physician services on the basis of Medicare-determined "reasonable charges". Reasonable charges are the lesser of: (1) a physician's billed charge; (2) the customary charge made by an individual physician for a specific service; or (3) the prevailing level of charges made by all physicians for similar services in a geographic area. The customary and prevailing charges were updated annually (on July 1) to reflect changes in physicians' charging practices. Increases in the prevailing charge levels are limited by an economical index, which reflects changes in the physicians' practice costs and changes in general earning levels.

The new law (Public Law 98-369) provides for a 15-month physician reimbursement freeze under the Medicare program, it protects Medicare beneficiaries from additional "extra-billing" and establishes a participating physician arrangement under the Medicare program.

For a more detailed explanation refer to Appendix D.

10. Pacemaker review and reform.—The costs of inpatient hospital services with respect to the implantation of pacemakers, including the costs of the device, are subject to the new diagnosis-related group (DRG) prospective payment system. However, the costs of the physicians' services for implantation and post-implantation monitoring of the devices are reimbursed under part B. Post-implantation monitoring includes transtelephonic monitoring for which frequency guidelines have been established by the Secretary.

The new law (Public Law 98-369) requires the Secretary to revise the current guidelines on the frequency of transtelephonic monitoring.

The law provides that, if the Secretary fails to revise the guidelines by October 1, 1984, a specified frequency schedule would be in effect with respect to single-chamber cardiac pacemakers powered by lithium batteries.

The law provides for a registry of pacemaker devices and leads; authorizes the Secretary of HHS to require that removed devices be returned to the manufacturer; and permits the Secretary to require testing of such devices.

11. Limitation on certain foot care services.—Routine foot care is not covered by Medicare. However, Medicare does allow reimbursement to physicians for debridement of mycotic toenails (i.e., the care of toenails with a funal infection).

The new law (Public Law 98-369) requires the Secretary to deny coverage under the Medicare program for debridement of mycotic toenails if performed more frequently than once every 60 days. Exceptions can be authorized if medical necessity is documented by the billing physician.

12. Permitting limited provider representation on Peer Review Organizations.—The Secretary was prohibited from contracting with an entity which is, or is affiliated with a health care facility. The Secretary, by regulations, specified that the governing body of a Peer Review Organization was not permitted to have a member who is a member, officer, or managing employee of a health care facility.

The new law (Public Law 98-369) provides for limited representation of providers on PRO's. It would allow up to 20 percent of the members of a PRO governing body to be affiliated with providers.

It permits entities whose board members include a representative of a self-insured employer to qualify as a PRO. In addition, an organization which has no more than one member affiliated with a health maintenance organization will not be classified as a payer organization and therefore be permitted to qualify as a PRO.

13. Including podiatrists in definition of "physician" for outpatient physical therapy services and including podiatrist and dentists in the definition of "physician for outpatient ambulatory surgery.—Under prior law, outpatient physical therapy services are covered only if the patient is under the care of a physician.

The new law (Public Law 98-369) defines a podiatrist (when acting within the scope of his practice) as a physician for purposes of the outpatient physical therapy requirement.

The law also includes dentists and podiatrists within the definition of physician for purposes of outpatient ambulatory surgery in a physician's office.

14. Establishment by physical therapist of plans for physical therapy.—Under prior law, Medicare payment for outpatient physical therapy services furnished to a beneficiary were made only if a plan for furnishing such services was established by a physician.

The new law (Public Law 98-369) allows either the physical therapist or the physician to establish the plan of care. The physician would still be required to periodically review all plans of care. The law is effective with respect to plans of care established on or after the date of enactment.

15. Medicare recovery against certain third parties.—Under current law, Medicare may limit benefit payments for services for which other third party insurance programs (e.g. worker's compensation, auto or liability insurance, and employer health plans) may ultimately be liable. However, the law did not make it explicit that the Secretary had the right of subrogation, i.e., the right to become a party to claims against other liable parties or to recover directly from such parties.

The new law (Public Law 98-369) establishes the statutory right of Medicare to: (1) bring an action directly against certain third parties, if the beneficiary does not do so; (2) bring an action against any party who has already been paid; or (3) join or intervene in an action against a third party.

16. Exclusion of certain entities owned or controlled by individuals convicted of Medicare or Medicaid related crimes.—Under present law, the Secretary may bar from participation in Medicare (and may direct State agencies to bar from Medicaid) a person convicted of program-related criminal offenses. The Secretary may refuse either to enter into or renew a provider agreement with an entity in which ownership or control is held by a person who has been so convicted.

The new law (Public Law 98-369) extends the Secretary's authority by authorizing the Secretary to terminate agreements with any entity in which ownership or controlling interest is held by a person convicted of a program-related criminal offense, or an entity in which an officer, director, agent or managing employee was convicted of such a criminal offense.

The law requires the Secretary to notify State Medicaid agencies and authorizes the Secretary to require such agencies to bar the entity from participation in the program. It also requires the Secretary to notify the appropriate State licensing or certification agency and request that appropriate investigations be made and that the State agency keep the Secretary and the Inspector General informed of any action taken.

17. Health maintenance organizations and competitive medical plans.—Under current law, health maintenance organizations (HMO's) are required to have an annual open enrollment period of at least 30 days during which time they must accept Medicare beneficiaries up to the limits of their capacity. If there is more than one HMO in an area, there was no requirement that the open enrollment periods be coordinated.

The new law (Public Law 98–369) requires the Secretary (after consultation with such organizations) to designate a single 30-day period each year in which all of the HMO's in an area participating in Medicare must have an open enrollment period. It permits HMO's to conduct open enrollment at other times during the year.

The law expands the types of providers to whom Medicare can make payments directly for HMO services to include hospitals and skilled nursing facilities.

In addition, the law permits an HMO to establish a benefits stabilization fund for a limited period of time.

18. Deadline for report on including payment for physicians' services to hospital inpatients in DRG payment amount.—The Secretary is required to report to Congress on the advisability and feasibility of making payments for physician services to hospital inpatients on a diagnosis-related group system and to make legislative recommendations. The report was to be a part of the report made to Congress during 1985. Public Law 98–369 requires the Secretary to report to Congress not later than July 1, 1985.

19. Part B premium.—Current law requires the Secretary to calculate and announce each September the amount of the monthly premium that will be charged in the following calendar year for people enrolled in the supplementary medical insurance (part B) portion of the Medicare program. A temporary provision of law required that for 1984 and 1985 the premium amount be calculated so as to produce premium income equal to 25 percent of program costs for enrollees aged 65 and over.

Beginning with 1986, the premium calculation would have reverted to an earlier method under which the premium amount is the lower of: (1) an amount sufficient to cover one-half of program costs for the aged; or (2) the current premium amount increased by the percentage by which cash benefits were most recently increased under the cost-of-living adjustment (COLA) provisions of the Social Security program.

Public Law 98–369 extends for 2 calendar years (1986 and 1987) the existing temporary provision which fixes the proportion of the part B Medicare costs financed by enrollees at 25 percent of program costs. Should no Social Security cost-of-living adjustment take place, the monthly premium will not be increased for that year.

In the case of an individual who has his or her part B premium deducted from his or her Social Security check, if the cost-of-living adjustment is less than the amount of the increase in the premium, the premium increase will be reduced so as to avoid a reduction in the individual's Social Security check. In certain cases, the monthly premium will not increase for that individual for that year.

20. Revaluation of assets.—Medicare currently reimburses hospitals and other providers for their capital-related costs, including depreciation costs and interest. Investor-owned hospitals also receive a return on equity. When hospitals and other providers are sold, their assets were often revalued, thereby increasing reimbursement for these capital-related costs.

Public Law 98–369 limits the increase in capital-related cost reimbursement to a new owner that would result from the revaluation of hospital or skilled nursing facility assets. The capital-related cost of the new owner will be based on the lesser of: (a) historical cost (the acquisition cost to the owner of record on the date of enactment), or (b) the purchase price to the new owner.

The Secretary is required to continue recapture of depreciation as under current reimbursement policy.

The provision will not apply with respect to changes of ownership of assets pursuant to an enforceable agreement entered into before the date of enactment.

The law excludes from the calculation of allowable costs those expenses (such as lawyers' fees and feasibility studies) related to acquisitions and mergers. The law is effective for costs incurred on or after the date of enactment.

The law also limits State Medicaid reimbursement for the costs associated with the sale or transfer of a hospital or nursing home. States are required to assure the Secretary that the methodologies used to establish rates paid to hospitals, SNF's or ICF's can reasonably be expected not to increase those rates more than they will increase under Medicare policy as the result of a change of ownership of a facility.

The law applies to medical assistance furnished on or after October 1, 1984, except in certain cases requiring State legislation.

21. Contracts for Medicare claims processing.—Medicare contracts with intermediaries and carriers to perform the day-to-day operational work of the program including reviewing claims and making program payments. Providers are permitted to nominate an intermediary.

The Secretary is permitted to assign or reassign any provider if the Secretary determines that such assignment or reassignment would result in more effective administration of the program.

Under the new law (Public Law 98-369) the Secretary is required to limit the number of home health regional intermediaries (by the end of 3 years) to no more than 10, in order to establish expertise in home health claims processing and to facilitate uniform interpretation of Medicare rules.

The law provides that in determining a carrier's or intermediary's necessary and proper cost of administration, the Secretary shall, with respect to each contract, take into account the amount that is reasonable and adequate to meet the costs which must be incurred by an efficiently and economically operated organzation in carrying out the terms of its agreement. It requires that all carriers and intermediaries perform the full range of carrier or intermediary activities and be health insuring organizations.

The Secretary is permitted to enter into no more than two competitively bid contracts under part A, and two competitively bid contracts under part B of Medicare, for each of the next 2 years only. These competitive contracts can only be used to replace consistently poor performers (contractors falling into the lowest 20th percentile of all performers, as measured by published cost and performance criteria).

The law requires that standards for carriers and intermediaries be available for public comment prior to implementation but does not require that they have to go through the full rulemaking procedures.

22. Lesser of costs or charges.—Under prior law, Medicare pays providers the lesser of costs or charges (LCC). HCFA regulations allowed hospitals to calculate the amount of their costs and charges in the aggregate for inpatient and outpatient services.

Public Law 98-369 requires the Secretary to issue regulations to isolate the calculation of the lesser cost or charges for outpatient services from the calculation for inpatient services.

To protect hospitals serving substantial numbers of indigent patients, the Secretary is required to modify the current rule under which public providers determined to have nominal charges are exempted from the lesser of cost or charges provision.

The same rule will also apply to nonpublic providers that serve a substantial number of indigent patients.

23. Coverage of hemophilia clotting factor.—Generally, part B of Medicare excludes coverage for drugs and biologicals unless they are of the type that cannot be self-administered and are commonly furnished as "incident to physicians" services.

The new law (Public Law 98-369) provides Medicare coverage, subject to utilization controls deemed necessary by the Secretary, for blood clotting factors and the supplies necessary for the self-administration of the clotting factor.

24. Cost-sharing for durable medical equipment furnished as a home health benefit.—Medicare payment for durable medical equipment which is not provided as a covered inpatient service is based on 80 percent of reasonable charges (80 percent of reasonable costs in the case of a provider), with one prior exception. Payment was based on 100 percent of those costs when furnished as part of a covered home health service.

The new law (Public Law 98-369) requires 20 percent coinsurance on durable medical equipment provided by home health agencies. It also clarifies the definition of durable medical equipment and the coverage of such equipment when furnished by providers.

25. Modification of the working aged provision.—The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) changed the Medicare benefits for the working aged. TEFRA amended The Age Discrimination in Employment Act (ADEA) to provide that an employer must offer to an employee age 65 through 69 the same group health plan offered to employees under age 65. As of January 1, 1983, if the employee elects the employer plan, Medicare benefits become secondary to benefits under the employer group health plan for an employed individual between the ages of 65 and 69 (and for the spouse of such employed individual, if the spouse is age 65 through 69).

The new law (Public law 98-369) provides that employers must also offer group coverage to an employee who has not reached age 65 in cases where the employee has a spouse age 65 through 69 under the same circumstances as coverage is offered to employees with a spouse under the age of 65. In the case where such employee elects the employer plan, Medicare coverage for his older spouse would be secondary.

26. Elimination of part B deductible for certain diagnostic laboratory tests.—Prior law authorized the Secretary to negotiate with a laboratory a payment rate that is considered the full charge for diagnostic tests. The payment, which is made directly to the laboratory, equals 100 percent of the negotiated rates and was subject to the annual part B deductible. The beneficiary is not liable for coinsurance payments.

Public Law 98-369 eliminates application of the annual part B deductible in the case of diagnostic tests performed in a laboratory which has entered a negotiated rate agreement with the Secretary.

The law also specifies that the current provision providing for negotiated agreements only applies to services not paid for under the new fee schedule (see Item 9).

27. Enrollment and premium penalty with respect to the working aged provision.—The Tax Equity and Fiscal Responsibility Act (TEFRA) required employers to offer their employees aged 65 to 69 the same health benefits plan offered to their younger workers. Medicare payments are secondary with respect to these older workers (and their spouses aged 65–69). (Public Law 98-369 extends the provision to include younger workers; see item 40.) Employees who elect enrollment in such employer-offered health benefit plans, and their spouses, may wish to delay enrollment in part B because part B coverage may be duplicative. However, persons who enroll late were subject to a penalty. The monthy part B premium is increased by 10 percent for each full 12 months that an individual delays enrollment in the program beyond his or her initial enrollment period.

The new law (Public Law 98-369) waives the part B enrollment penalty for workers and their spouses aged 65 through 69 who elect private coverage under the provision of TEFRA and would establish special enrollment periods for such workers. The waiver will apply for the period during which an individual continued to be covered under an employer's group health benefits plan.

The law provides that the penalty relief provision would be effective with respect to the first calendar month beginning at least 30 days after enactment.

The law also provides that the special enrollment provisions would be effective for months beginning more than 90 days after enactment.

28. Waivers for social health maintenance organizations.—The Secretary has general authority to conduct experiments and demonstrations. While the Department has provided start-up funding for social HMO project, waivers allowing the four demonstration sites to become operational had not been approved by the Office of Management and Budget.

Public Law 98-369 requires the Secretary to approve certain waivers for a project to demonstrate the concept of a social HMO at four sites within 30 days after submission of a waiver request or within 30 days of enactment in the case of waiver requests submitted prior to enactment.

The law requires submission to Congress of an interim report on the status of the projects within 45 days of enactment. A final report is due to Congress 42 months after enactment.

29. Services of a clinical psychologist provided to members of an HMO.—Under current law, services of physician assistants and nurse practitioners are recognized as "medical and other health services" if they are furnished pursuant to a risk-sharing arrangement with a health maintenance organization.

Public Law 98-369 provides that the services of clinical psychologists, when furnished pursuant to a risk-sharing arrangement with a health maintenance organization, are recognized as "medical and other health services."

The Secretary has the authority to specify the qualifications necessary to be identified as a clinical psychologist.

30. Payment rate for hospice home care under Medicare.—TEFRA provided reimbusement under Medicare for a new category of Medicare providers, hospice programs. TEFRA required that hospice programs be reimbursed an amount equal to the costs which are reasonable and related to the cost of providing hospice care (or based upon such other test of reasonableness as the Secretary may prescribe).

The Department of Health and Human Services established a prospective payment system for hospice care. Daily rates of $46.25 for routine home care, $358.67 for continuous home care, $55.33 for inpatient respite care, and $271.00 for general inpatient care were established subject to a cap of $6,500.

The new law (Public Law 98-617) establishes the routine home care payment rate at $53.17 per day for services furnished during the 12-month period beginning October 1, 1984.

In addition, the Secretary is required to review beginning October 1, 1985, and not less often than annually thereafter, and as appropriate, adjust the payment rate for routine home care and for other services included in hospice care based on the costs that are reasonable and related to the costs of furnishing such care and services.

REPORTS AND STUDIES

The following is a list of studies and reports required by law which are either past due or to be concluded in the next 3 years.

Topic	Due date
PAST DUE	
Secretary of HHS to submit a report, including legislative recommendations, to Congress on the feasibility of establishing a single coordinated process for the collection of overpayments established in coordinated audit under the Social Security Act. (section 914(b)(4), Public Law 96-499).	December 31, 1981.
Secretary of HHS to submit a report, including legislative recommendations, to Congress on actions taken (1) to coordinate the conduct of institutional audits and inspections which are required under the programs funded under titles V, XVIII or XIX of the Social Security Act, and (2) to coordinate such audits and inspections with those conducted by other cost payors. (section 914(d), Public Law 96-499).	December 31, 1981.
Secretary of HHS to report to Congress evaluating the effectiveness of various State approaches to the regulation of medicare supplemental policies. (section 507(a), Public Law 96-265).	January 1, 1982.
Secretary of HHS to report with legislative recommendations on demonstration project to determine (1) the extent to which the commencement of nutritional therapy in early renal failure can retard or arrest the progression of the disease and the administrative, financial, and other aspects of making such nutritional therapy generally available under medicare. (section 958(h), Public Law 96-499).	December 5, 1982.

Topic	Due date
Secretary of HHS to report with legislative recommendations on a study of the circumstances and conditions under which services furnished by registered dietitians should be covered as a home health benefit under medicare. (section 958(h), Public Law 96–499).	December 5, 1982.
Secretary of HHS to report with legislative recommendations on demonstration project to determine the administrative, financial, and other aspects of making the services of clinical social workers more generally available as part of the benefits received under medicare. (section 958(h), Public Law 96–499).	December 5, 1982.
Secretary of HHS to report with legislative recommendations on the circumstances and conditions under which services furnished with respect to respiratory therapy should be covered as a home health benefit under medicare. (section 958(h), Public Law 96–499).	December 5, 1982.
Secretary of HHS to report with legislative recommendations on the cost effects of alternative approaches to improving coverage under Medicare for the treatment of various types of foot conditions. (section 958(h), Public Law 96–499).	December 5, 1982.
Secretary of HHS to submit report and legislative recommendations to Congress on demonstration projects to determine the feasibility of creating a single coordinated appeal hearing to adjudicate cost items which are determined under common audits under the Act and which are disputed and appealed. (section 914(b)(3), Public Law 96–499).	December 31, 1982.
Secretary of HHS to conduct and promptly complete all studies and experiments required under present law which pertain to the use of, and reimbursement for, nutritional therapy; and that the Secretary transmit a full and complete report with respect to each study and experiment. (Public Law 97–35).	January 1, 1983.
Secretary of HHS shall report to Congress on the effectiveness of hospice demonstration projects in effect on July 15, 1982, pursuant to section 402(a) of SSA of 1967, including an evaluation of the cost-effectiveness of hospice care, the reasonableness of the 40 percent cap amount for hospice care as provided in section 1841(i) of the Act, proposed methodology for determining such cap amount, proposed standards for requiring and measuring the maintenance of effort for utilizing volunteers as required under section 1861(dd) of the Act, an evaluation of physician reimbursement for services furnished as part of hospice care, and any proposed legislative changes in the hospice care provision of medicare. (section 122(h)(2), Public Law 97–248).	September 30, 1983.
Secretary of HHS shall make recommendations to the Congress with respect to a method for including hospitals located outside of the 50 States and the District of Columbia under a prospective payment system. (section 603(a)(4), Public Law 98–21).	April 1, 1984.
Secretary of HHS, in consultation with the Secretary of Labor is directed to conduct a study and report to Congress the results and any changes with respect to an appropriate index for purposes of adjusting payment amounts under section 1886(d) of the Act to reflect area differences in average hospital wage index levels, as required under paragraphs (2)(H) and (3)(E) of such section taking into account wage differences of full time and part time workers. (section 2316(a), Public Law 98–369).	August 1, 1984.
Secretary of HHS is directed to report to the Congress the proposals developed as required under section 1135(c) of the Act for prospective reimbursement of skilled nursing facilities. (section 2319(b), Public Law 98–369).	August 1, 1984.
Secretary of HHS is directed to conduct a study and report to Congress on further refinements which may be appropriate in the inpatient hospital prospective payment provisions of medicare, in order to address the problems of differences in payment amounts to specific hospitals. The study will include (but not limited to) the degree of variation in inpatient hospital costs per discharge within each DRG. The Secretary is directed to present alternative methods of computing the amount of such payments. The study will include a discussion of the relative merits of a method of payment under which a percentage of the payment amount could be determined on a regional basis. (section 2311(f), Public Law 98–369).	September 1, 1984.
Secretary of HHS is directed to submit a preliminary report to Congress on the status of the social HMO projects and waivers. (section 2355(d)(1), Public Law 98–369).	September 1, 1984.

Topic	Due date
Secretary of HHS shall study, develop and report to the Congress on the method and proposals for legislation by which capital-related costs, such as return on net equity associated with inpatient hospital services can be included within the prospective payment amounts computed under section 1886(d) of the Act. (section 603(a)(1), Public Law 98–21).	October 20, 1984.
Secretary of HHS shall report to the Congress with respect to (1) the effect which the implementation of sec. 102 of TEFRA would have on hospital based skilled nursing facilities and by community based skilled nursing facilities and (2) the impact on skilled nursing facilities of hospital prospective payment system and recommendations concerning payment of skilled nursing facilities, a range of options for prospective payment of SNF's taking into account case mix, and differences among SNF's. The report shall analyze the feasibility of permitting inclusion of payments to hospital-based facilities within the DRG payment system. (section 605(b), Public Law 98–21; section 2319(b), Public Law 98–369).	December 1, 1984.
Secretary of HHS is directed to review and report findings to the Congress on the urban/rural payment differential with respect to DRG's were a substantial part of the treatment involves non-labor costs. In addition, the Secretary is directed to study the advisability and feasibility of varying by DRG the portion of the labor and non-labor components of the Federal payment amount. (section 2311(e), Public Law 98–369).	January 18, 1985.
NOT YET DUE	
Secretary of HHS is directed to review and report to Congress on the appropriateness of the amounts recognized under part B of medicare or physicians' services associated with the implantation or replacement of pacemaker devices and pacemakers leads. The review will take into account the amounts recognized as reasonable with respect to such procedures and the time and difficulty of such procedures and the time and difficulty of such procedures at the time the amounts for such procedures were first established under such part. (section 2304(b)(1), Public Law 98–369).	March 1, 1985.
The Prospective Payment Assessment Commission is directed to review and report to Congress regarding the appropriateness of the payment amounts provided under section 1886(d) of such Act for inpatient hospital services associated with implantation or replacement of pacemaker devices and pacemaker leads. Such review will take into account the time, difficulty, and costs associated with such procedures at the current time in comparison with the time difficulty, and costs associated with such procedures and upon which the payment rates are based. (section 2304(b)(2), Public Law 98–369).	March 1, 1985.
Secretary of HHS shall submit a report and legislative recommendations to the Congress on an evaluation of the effectiveness of the program of transitional allowances to promote closing and conversion of underutilized hospital facilities, and include in the report an analysis as to how and whether implementation of the closure and conversion provision as modified could result in achieving reductions in the total cost of hospital inpatient services and medicare expenditures. (section 2101, Public Law 97–35; section 2353, Public Law 98–369).	March 31, 1985.
Secretary of HHS shall make legislative recommendations to the Congress with respect to an equitable method of reimbursing sole community hospitals which takes into account their unique vulnerability to substantial variations in occupancy. (section 603(a)(3)(A), Public Law 98–21).	April 1, 1985.
Secretary of HHS shall examine ways to coordinate an information transfer between parts A and B under medicare, particularly with respect to those cases where a denial of coverage is made under part A of medicare; and no adjustment is made in the reimbursement to the admitting physician or physicians. (section 603(a)(3)(B), Public Law 98–21).	April 1, 1985.
Secretary of HHS shall report to the Congress on the appropriate treatment of uncompensated care costs, and adjustments that might be appropriate for large teaching hospitals located in rural areas. (section 603(a)(3)(C), Public Law 98–21).	April 1, 1985.
Secretary of HHS shall report to Congress on the advisability of having hospitals make available information on the cost of care to patients financed by both public programs and private payors. (section 603(a)(3)(D), Public Law 98–21).	April 1, 1985.

Topic	Due date
Secretary of HHS shall monitor and report to Congress on physician services during the fee freeze in order to determine any changes in the per capita volume and mix of services provided to beneficiaries under part B, classified by participating and nonparticipating physicians, by assigned and nonassigned claims, by specialty, and be geographic area including legislative recommendations. (section 2306(d), Public Law 98–369).	July 1, 1985.
Secretary of HHS shall report to Congress on the advisability and feasibility of making payments for physicians services furnished to hospital inpatients based on a diagnosis-related group system and to make legislative recommendations. (section 603(a)(2)(B), Public Law 98–21; section 2317, Public Law 98–369).	July 1, 1985.
The Comptroller General is directed to conduct a study on: (1) the ability of HCFA to manage competitive bidding for agreements and contracts under sections 1816 and 1842 and the relative costs and efficiency of such competitive agreements and contracts as compared to current reimbursement for such agreements and contracts; (2) the need, if any, for eliminating the provider nomination procedure under section 1816(a); (3) the disparities, if any, in costs and quality of claims processing pursuant to sections 1816 and 1842; (4) whether the standards of the Secretary of HHS for evaluating costs and performance of intermediaries and carriers are adequate and properly applied; and (5) whether the Secretary's statutory authority is sufficient to deal with inefficient intermediaries and carriers either through the contract negotiation and budget review process or through the process for termination or nonrenewal of contracts. (section 2326(e), Public Law 98–369).	July 18, 1985.
Director of OTA is required to study and report to Congress on methods by which part B payment amounts and program policies may be modified to: (1) eliminate inequities in the relative amounts paid to physicians by type of service, locality, and speciality, with particular attention to any inequities between cognitive services and medical procedures; (2) increase incentives for physicians and other suppliers to accept assignment; and (3) examine the influences of payment methodologies and levels on utilization of services. The report must also include information on methodologies to be applied in the development of national or regional fee schedules for payments which are consistent with the study carried out by the Secretary. (section 2309(a), Public Law 98–369).	December 31, 1985.
An expert commission to study medicare prospective payment shall report to Congress on its evaluation of any recalibration the Secretary of HHS may make in DRG's (Public Law 98–21).	After fiscal year 1986.
Secretary of HHS shall conduct a study and report to Congress on whether or not the reimbursement method and benefit structure (including co-payments) for hospice care under medicare are fair and equitable and promote the most efficient provision of hospice care. Such report shall include the feasibility and advisability of providing for prospective reimbursement for hospice care, an evaluation of the inclusion of payment for outpatient drugs, an evaluation of the need to alter the method of reimbursement for nutritional, dietary, and bereavement counseling as hospice care, the necessity and appropriateness of the requirement that certain 'core' services be furnished directly, and any recommendations for legislative changes in the hospice care reimbursement or benefit structure. Such study shall be monitored and evaluated by the Comptroller General. (section 122(i) (1) and (2), Public Law 97–248; section 2343(d), Public Law 98–369).	January 1, 1986.
The Comptroller General is directed to conduct a study and report to Congress of the amounts billed for physician services and paid by carriers under section 1842(b)(7) to determine whether such payments have been made only where the physician satisfies the requirements of section 1841(b)(7)(A)(i). (section 2307(c), Public Law 98–369).	January 18, 1986.
The Comptroller General is directed to report to Congress on the appropriateness of the outpatient diagnostic laboratory fee schedule and their impact on the volume and quality of clinical laboratory services, the potential impact of the adoption of a national fee schedule and the impact such a fee schedule would have on hospital outpatient services. GAO is directed to report on any changes in the volume of lab tests done by physicians or labs. The Secretary of HHS is directed to report on the advisability and feasibility of a system of direct payment to any physicians for all clinical diagnostic lab tests ordered by such physicians. (section 2303(i)(1)(2), Public Law 98–369).	January 1, 1987.

Topic	Due date
Secretary of HHS shall submit a final report to Congress on the social HMO projects. (section 2355(d)(2), Public Law 98-369).	December 18, 1987.
Secretary of HHS is directed to report to Congress with respect to the use of stabilization funds by eligible organizations under section 1876(g)(5) of the Act and shall assess the need for such funds. (section 2350(b)(4), Public Law 98-369).	December 18, 1988.
Secretary of HHS shall submit an interim report to Congress on a study evaluation the extent of, and reasons for, the termination by medicare beneficiaries of their memberships in organizations with contracts under sec. 1876 of the Act placing special emphasis on the quantity and quality of medical care provided in such organizations and the quality of such medical care provided in such organizations and the quality of such care when provided on a fee-for-service basis. (section 114(e), Public Law 97-248).	Within 2 years after implementation.
Secretary of HHS shall submit a final report to Congress on a study evaluating the extent of, and reasons for, the termination by medicare beneficiaries of their memberships in organizations with contracts under section 1876 of the Act placing special emphasis on the quantity and quality of such medical care provided in such organizations and the quality of such care when provided on a fee-for-service basis. (section 114(e), Public Law 97-248).	Within 5 years after implementation.
Board of Trustees to make a timely report to Congress of any amount (including interest) under the interfund borrowing authority that will expire December 31, 1982. (section 1, Public Law 97-123).	No date certain.
Secretary of HHS shall report on adjustments that may be required in medicare prospective payment amounts for such cases which have an unusually short length of stay or which are significantly less costly than the DRG payment with recommendations on how to address this issue. (Public Law 98-21).	No date certain.
Secretary shall conduct a study and report to Congress proposed criteria under which, in the case of a hospital that demonstrates to the Secretary in the current fiscal year that the adjustment being made under paragraph (2)(H) or (3)(E) of section 1886(d) of the Act for that hospital's discharges in that fiscal year does not accurately reflect the wage levels in the labor market serving the hospital. (section 2316(c), Public Law 98-369).	No date certain.
Secretary of HHS shall conduct a study and report to Congress of possible methods of reimbursement under medicare which would not discourage the use of certified registered nurse anesthetists. (section 2312, Public Law 98-369).	No date certain.

APPENDIX C. NATIONAL HEALTH CARE EXPENDITURES AND EXPENDITURES FOR HEALTH CARE OF THE ELDERLY

NATIONAL HEALTH EXPENDITURES

During 1965 (the year prior to the beginning of the Medicare and Medicaid programs), national health expenditures were $41.9 billion; by 1983, annual expenditures were $355.4 billion, over eight times that amount. Hospital care expenditures are the largest component of national health expenditures, representing 41.4 percent of total national health spending in 1983. In terms of per capita spending, $629 was spent for hospital care per capita in 1983 compared to $574 in 1982, an increase of 9.6 percent (see table 1).

Of the various sources of payment for personal health care expenditures in 1983, 31.9 percent ($100 billion) was paid for by private health insurance, 18.3 percent ($57.4 billion) was paid by Medicare, 11.4 percent ($35.5 billion) was paid from other Federal sources (including Medicaid), 10.0 percent ($31.5 billion) was paid from State and local sources, and 27.2 percent ($85.2 billion) was paid by direct (out-of-pocket) payments by individuals.

TABLE 1.—NATIONAL HEALTH EXPENDITURES: AGGREGATE AND PER CAPITA AMOUNTS FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1983

	1965	1970	1975	1980	1983
	Amount (billions)				
Total	$41.9	$75.0	$132.7	$248.0	$355.4
Percent of GNP	6.1	7.6	8.6	9.4	10.8
Health services and supplies	$38.4	$69.6	$124.3	$236.1	$340.1
Personal health care	35.9	65.4	117.1	219.1	313.3
Hospital care	14.0	28.0	52.4	101.3	147.2
Physicians' services	8.5	14.3	24.9	46.8	69.0
Dentists' services	2.8	4.7	8.2	15.4	21.8
Other professional services	1.0	1.6	2.6	5.6	8.0
Drugs and medical sundries	5.2	8.0	11.9	18.5	23.7
Eyeglasses and appliances	1.2	1.9	3.2	5.1	6.2
Nursing home care	2.1	4.7	10.1	20.4	28.8
Other health services	1.1	2.1	3.8	5.9	8.5
Expenses for prepayment and administration	1.7	2.8	4.0	9.2	15.6
Government public health activities	.8	1.4	3.2	7.7	11.2
Research, and construction of medical facilities	3.5	5.4	8.4	11.9	15.3

TABLE 1.—NATIONAL HEALTH EXPENDITURES: AGGREGATE AND PER CAPITA AMOUNTS FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1983—Continued

	1965	1970	1975	1980	1983
	Dollar amount per capita				
Total	$206.40	$350.50	$590.30	$1,049.10	$1,458.90
Health services and supplies	189.20	325.20	552.90	998.70	1,396.10
Personal health care	176.80	305.60	520.90	926.80	1,286.10
Hospital care	69.00	130.80	233.10	428.50	604.30
Physicians' services	41.90	66.80	110.80	198.00	283.30
Dentists' services	13.80	22.00	36.50	65.10	89.50
Other professional services	4.90	7.50	11.60	23.70	32.80
Drugs and medical sundries	25.60	37.40	52.90	78.30	97.30
Eyeglasses and appliances	5.90	8.90	14.20	21.60	25.50
Nursing home care	10.30	22.00	44.90	86.30	118.20
Other health services	5.40	9.80	16.90	25.00	34.90
Expenses for prepayment and administration	8.40	13.10	17.80	38.90	64.00
Government public health activities	3.90	6.50	14.20	32.60	46.00
Research, and construction of medical facilities	17.20	25.20	37.40	50.30	62.80

Source: Gibson, Robert M., Katharine R. Levit, Helen Lazenby, and Daniel R. Waldo. "National Health Expenditures, 1983." Health Care Financing Review, Fall 1984, p. 1.

TABLE 2.—PERSONAL HEALTH CARE EXPENDITURES: AGGREGATE AMOUNTS AND PERCENTAGE DISTRIBUTION FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1983

	1965	1970	1975	1980	1983
	Amount in billions				
Total	$35.9	$65.4	$117.1	$219.1	$313.3
Private	28.0	42.9	70.8	132.4	188.9
Private health insurance	8.7	15.3	31.2	67.3	100.0
Patient direct payments	18.5	26.5	38.0	62.5	85.2
Philanthropy and in-plant health services	0.8	1.1	1.6	2.6	3.7
Public	7.9	22.4	46.3	86.7	124.5
Federal	3.6	14.5	31.4	62.5	93.0
State and local	4.3	7.9	14.9	24.2	31.5
	Percentage distribution				
Total	100.0	100.0	100.0	100.0	100.0
Private	78.0	65.6	60.5	60.4	60.3
Private health insurance	24.2	23.4	26.7	30.7	31.9
Patient direct payments	51.6	40.5	32.5	28.5	27.2
Philanthropy and in-plant health services	2.2	1.7	1.3	1.2	1.2
Public	22.0	34.3	39.5	39.6	39.7
Federal	10.1	22.2	26.8	28.5	29.7

TABLE 2.—PERSONAL HEALTH CARE EXPENDITURES: AGGREGATE AMOUNTS AND PERCENTAGE DISTRIBUTION FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1983—Continued

	1965	1970	1975	1980	1983
State and local	11.9	12.1	12.7	11.0	10.1

Source: Gibson, Robert M., Katharine R. Levit, Helen Lazenby, and Daniel R. Waldo. "National Health Expenditures, 1983." Health Care Financing Review, Fall 1984, p. 1.

EXPENDITURES FOR HOSPITAL CARE

During 1965 (the year prior to the beginning of the Medicare and Medicaid programs), national expenditures for hospital care amounted to $13 billion. By 1983, annual expenditures had reached $147.2 billion, over 10 times the 1965 amount. Total hospital inpatient expenditures have been increasing rapidly for many years.

From 1970 to 1977, inpatient expenditures in community hospitals grew at an average annual rate of 14.6 percent. After a marked slowing in 1978 and 1979, growth accelerated rapidly and reached an annual rate of 18.4 percent in 1981. Since 1981, the annual rate of increase in inpatient hospital expenses has been declining steadily, following the decline in overall inflation in the economy. During 1982, community inpatient expenditures slowed to an annual increase of 15.5 percent. During 1983, the rate of increase dropped to 9.6 percent.

This rapid growth in hospital costs has led to substantial increases in Federal spending for Medicare and Medicaid, of which roughly 60 percent is for hospital care. Federal outlays under these programs for hospital care totaled approximately $45.3 billion in 1983, an increase of nearly $3 billion from 1981.

Under the current policies, rapidly rising hospital costs and increasing Federal outlays are likely to continue. Projections show that Medicare outlays for hospital care will rise at an average annual rate of approximately 11.5 percent from 1985 through 1988.

Although the high rates of growth in hospital costs are due primarily to increases in prices faced by hospitals, inflation does not explain the most recent surge in Medicare hospital expenditures. The cost of hospital care has typically increased more than the "hospital market basket," which measures changes in the prices of goods purchased by hospitals. This index increased by 11.8 percent in 1981, 9.3 percent in 1982, and 6.3 percent in 1983, whereas Medicare inpatient expenditures increased by 21.6 percent, 17.6 percent, and 13.2 percent in those periods respectively.

There are a variety of factors other than overall inflation which contribute to aggregate changes in hospital expenses. These factors include: population growth, factors such as aging of the population which affect admission rates, inflation in the prices of goods and services purchased by the hospitals (input factor prices) over and above general inflation, and changes in the type and mix (intensity) of services rendered due to such factors as changes in the use of technology or treatment patterns. It has been estimated that 51.6

percent of the overall growth in inpatient hospital expenses between 1972 and 1982 was due to overall inflation, 6.9 percent to population growth, 6.8 percent to increases in admissions per capita, 13.0 percent additional inflation in hospital input prices relative to overall inflation in the general economy, and 21.7 percent to intensity of services per admission.[1]

TABLE 3.—HISTORICAL AND PROJECTED INCREASES IN HI HOSPITAL INPATIENT EXPENDITURES, BY COMPONENT OF INCREASE, 1974–90

[Percent increase over previous year]

Calendar year	HI hospital inpatient expenditures	HI inpatient admission volume	Hospital market basket index	Service intensity and productivity [1]
	Historical Rates			
1974	23.6	5.9	10.4	5.7
1975	22.5	3.5	10.9	6.8
1976	19.0	4.4	8.2	5.4
1977	17.3	7.6	7.4	1.5
1978	14.8	0.9	8.2	5.3
1979	16.4	5.7	9.6	0.5
1980	20.3	4.6	11.6	3.0
1981	21.6	3.7	11.8	4.9
1982	16.1	4.0	9.4	2.0
1983	13.0	4.6	6.2	1.7
	Projected Rates [2]			
1984	11.8	3.8	5.9	1.7
1985	12.5	4.1	7.1	0.9
1986	13.0	4.0	7.7	0.9
1987	12.3	3.5	7.4	1.0
1988	11.8	3.4	7.1	0.9
1989	11.2	3.3	6.6	0.9
1990	10.9	3.3	6.3	1.0

[1] A residual category; that part of annual growth in HI hospital inpatient expenditures not accounted for by growth in HI admissions or increases in the market basket index.

[2] Based on alternative II–B economic assumptions.

Source: Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund, 1984, table A1, p. 53.

EXPENDITURES FOR PHYSICIANS' SERVICES

Personal health care expenditures for physicians' services were $69 billion in 1983, an increase of 11.7 percent from the previous year (see table 1). In 1983, 22.0 percent of personal health care expenditures and 19.4 percent of all national health expenditures were for physicians' services. Physicians, however, affect personal health care expenditures more than this might indicate. Physicians have considerable discretion in determining price and volume of all medical services. It is estimated that physicians' decisions (such as ordering hospitalizations, drugs, laboratory tests) directly influence over 70 percent of all health care spending.

---

[1] Freeland, Mark S., and Carol E. Schendler. "Health Spending in the 1980's: Integration of Clinical Practice Patterns with Management." Health Care Financing Review, Spring 1984, p. 18.

Third-party (public expenditures and private insurance) payments financed a large majority of physicians' services. Private health insurance paid $30.1 billion (44 percent) for such services. The remainder was split relatively evenly between direct patient payments and public expenditures. Patients or their families paid $19.6 billion (28 percent) for physicians' services. Public programs paid $19.3 billion (28 percent) for such services, of which $13.4 billion (19 percent) was composed of Federal Medicare payments.

Inflation was a major cause of growth in spending for physicians' services. Physicians' fees have risen more rapidly (7.7 percent in 1983) than prices in the economy as a whole (3.2 percent in 1983), as measured by the Consumer Price Index (CPI) (see table 5).

Expenditures for physicians' services over a 10-year span increased from $17 billion in 1972 to $62 billion in 1982, an annual growth rate of about 14 percent. Of this expenditure growth, increases in overall inflation accounted for 57 percent, increases in the CPI for physicians' fees accounted for 13 percent, increases in visits accounted for 3 percent, and increased intensity per visit for 27 percent.

The average 1983 net income after expenses but before taxes for physicians was $106,300, an increase of 6.8 percent over the previous year (see table 6). Surgeons had the highest average net income ($138,900) among the specialty groups and experienced the highest growth, 9.6 percent, in average net income. In contrast, the average net income of general and family practitioners fell 4.7 percent (to $68,500). By region, average net income growth rates varied by less than 1 percent, ranging from 6.4 percent in the North Central States to 7.3 percent in the West. As a result, physicians in the South and North Central regions continued to have the highest average net incomes ($113,400 and $113,100), physicians in the West were in the middle of the range ($100,100), and physicians in the Northeast had the lowest average net income ($94,500). The growth rates differed more noticeably between rural and urban areas, ranging from 0.3 percent in nonmetropolitan areas to 6.8 percent and 8.0 percent for metropolitan areas with less than and more than 1 million population. The average net income of self-employed physicians ($115,900) continued to be higher than the average net income of employee physicians ($77,600) although the 6.3 percent growth rate in self-employed physicians' net income was lower than the 8.5 percent growth rate for employee physicians.

The 1982 continuing survey of physicians' income conducted by Medical Economics [2] showed that the typical office-based doctor received two-thirds of his 1981 gross practice income from third parties (see table 7). On the average, 21 percent came from commercial health insurance, 20 percent from Blue Shield, 17 percent from Medicare, and 8 percent from Medicaid. Table 7 also shows the breakdown of gross practice income from each third party. For example, thoracic surgeons on average receive 35 percent ($72,420 per capita) of their gross income from Medicare, while pediatricians on average gain only 1 percent ($1,170 per capita) of their gross incomes from Medicare.

---

[2] Owens, Arthur. "How Much of Your Income Comes From Third Parties?" in Medical Economics, April 4, 1983.

TABLE 4.—PERSONAL HEALTH CARE EXPENDITURES FOR PHYSICIAN SERVICES [1] BY SELECTED THIRD-PARTY PAYERS: CALENDAR YEARS 1981–83

[Amounts in billions]

Source of payment	1981		1982		1983	
	Amount	Percent	Amount	Percent	Amount	Percent
Total	$54.8	100.0	$61.8	100.0	$69.0	100.0
Direct payments	16.3	29.7	17.8	28.8	19.6	28.4
Third-party payments	38.5	70.3	44.0	80.3	49.5	71.7
Private health insurance	23.4	42.7	27.1	43.8	30.1	43.6
Philanthropy and industrial inplant	(2)	(2)	(2)	(2)	(2)	(2)
Government	15.0	27.4	16.9	27.3	19.3	28.0
Federal	11.7	21.3	13.4	21.7	15.6	22.6
Medicare [3]	9.7	17.7	11.4	20.8	13.4	19.4
Medicaid [4]	1.5	2.7	1.5	2.4	1.6	2.3
Other	.5	.9	.5	.8	.6	.9
State and local	3.3	6.0	3.5	5.7	3.7	5.4
Medicaid [4]	1.2	2.2	1.3	2.4	1.4	2.0
Other	2.1	3.8	2.2	3.5	2.3	3.3

[1] Encompasses the cost of all services and supplies provided in physicians' offices, the cost for services of private practitioners in hospitals and other institutions, and the cost of diagnostic work performed in independent clinical laboratories. The salaries of staff physicians are counted with expenditures for the services of the employing institution.

[2] Less than $50 million.

[3] Represents total expenditures from funds for benefits. Trust fund income includes premium payments paid by or on behalf of enrollees.

[4] Includes funds paid into Medicare trust funds by States under "buy-in" agreements to cover premiums for public assistance recipients and for persons who are medically indigent.

Source: Office of Financial and Actuarial Analysis, Bureau of Data Management and Strategy. Health Care Financing Administration as reported in Gibson, Robert M., Katharine R. Levit, Helen Lazenby, and Daniel R. Waldo. "National Health Expenditures, 1983." Health Care Financing Review, winter 1984, p. 1.

TABLE 5.—ANNUALIZED RATES OF CHANGE IN THE CONSUMER PRICE INDEX (CPI–U) [1] 1965–84

	CPI all items	CPI, all items less medical care	Medical care total	Physicians' services
1965	1.7	1.5	2.5	3.6
1966	2.9	3.0	4.4	5.8
1967	2.9	2.4	7.1	7.1
1968	4.2	4.1	6.1	5.6

TABLE 5.—ANNUALIZED RATES OF CHANGE IN THE CONSUMER PRICE INDEX (CPI–U)[1] 1965–84—Continued

	CPI all items	CPI, all items less medical care	Medical care total	Physicians' services
1969	5.4	5.4	6.9	6.9
1970	5.9	5.8	6.3	7.5
1971	4.3	4.1	6.5	6.9
1972	3.3	3.3	3.2	3.1
1973	6.2	6.4	3.9	3.3
1974	11.0	11.1	9.3	9.2
1975	9.1	8.9	12.0	12.3
1976	5.8	5.5	9.5	11.3
1977	6.5	6.2	9.6	9.3
1978	7.7	7.6	8.4	8.3
1979	11.3	11.4	9.3	9.2
1980	13.5	13.6	10.9	10.6
1981	10.4	10.3	10.8	11.0
1982	6.1	5.9	11.6	9.4
1983	3.2	2.9	8.7	7.7
1984	4.3	4.1	6.2	7.0

[1] CPI index for all urban consumers, unadjusted figures.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index, various publications.

TABLE 6.—PHYSICIANS' AVERAGE NET INCOME AFTER EXPENSES BUT BEFORE TAXES, SURVEY RESULTS, 1982 AND 1983

	Average net income[1]		Percent change
	1982	1983	
All physicians[2]	$99,500	$106,300	6.8
Specialty:			
General/family practice	71,900	68,500	−4.7
Medical specialties	81,700	85,600	4.8
Surgical specialties	126,700	138,900	9.6
Region:			
Northeast	88,300	94,500	7.0
North Central	106,300	113,100	6.4
South	105,700	113,400	7.3
West	93,600	100,100	6.9
Location:			
Nonmetropolitan	86,900	87,200	0.3
Metropolitan:			
Less than 1,000,000	103,900	111,000	6.8
1,000,000 and over	98,400	106,300	8.0
Employment status:			
Self-employed	109,000	115,900	6.3
Employee	71,500	77,600	8.5

[1] Average net income after expenses but before taxes. These figures include contributions made into pension, profit-sharing, and deferred compensation plans.

[2] Includes physicians in specialties not reported separately.

Source: SMS Report, Socioeconomic Monitoring System, American Medical Association, Vol. 3, No. 5, August 1984.

TABLE 7.—NET PRACTICE EARNINGS OF PHYSICIANS NATIONWIDE FROM 16 SPECIALTIES, SURVEY RESULTS, 1981

	Commercial plans		Blue Shield		Medicare		Medicaid	
	Amount per capita	As percent of gross	Amount per capita	As percent of gross	Amount per capita	As percent of gross	Amount per capita	As percent of gross
Anesthesiologists	$40,880	27	$43,750	29	$32,790	22	$12,970	10
Family practitioners	25,110	17	18,390	13	21,220	15	12,370	9
General practitioners	22,620	17	16,800	13	21,170	18	12,250	10
General surgeons	47,700	26	45,570	27	43,750	25	13,190	8
Internists	20,870	15	26,420	19	39,630	29	8,740	7
Neurologists	34,070	22	32,860	22	37,390	24	12,040	9
Neurosurgeons	67,040	32	57,220	28	37,310	18	14,920	8
Obstetricians/gynecologists	59,690	32	55,070	30	8,530	5	15,450	8
Ophthalmologists	18,900	10	21,610	11	49,010	24	12,770	8
Orthopedic surgeons	76,920	31	58,050	25	43,220	17	14,390	6
Pathologists	18,420	14	34,850	26	28,000	21	13,330	11
Pediatricians	16,750	14	12,080	12	1,170	1	10,950	9
Plastic surgeons	43,870	25	34,670	22	18,780	12	8,710	5
Psychiatrists	25,370	24	20,140	19	6,370	6	5,340	5
Radiologists	32,840	18	51,420	28	49,730	28	18,450	11
Thoracic surgeons	43,110	21	57,990	26	72,420	35	15,930	7
All surgical specialists	50,950	26	48,010	25	38,910	20	13,540	8
All non-surgical specialists	25,710	19	27,430	20	24,660	17	10,710	8
All M.D.'s	33,480	21	32,030	20	27,490	17	11,440	8

Source: Medical Economics Continuing Survey, 1982, as reported in Owens, Arthur. "How Much of Your Income Comes From Third Parties?" Medical Economics, April 4, 1983.

HEALTH CARE EXPENDITURES FOR THE ELDERLY

Expenditures for personal health care services for the elderly have nearly tripled over the last 7 years, rising from $43 billion in 1977 to an estimated $120 billion in 1984 (see table 8). Per capita spending rose an average of 13 percent annually during those years, from $1,785 to $4,202 (see table 9).

Government programs (Federal and State) account for two-thirds ($2,823 per capita) of estimated 1984 spending for the aged (see table 10). The most significant of these programs is Medicare which pays for nearly half ($2,051 per capita) of the aged's health bill. Medicaid funds about 13 percent ($536 per capita) of the expenditures. Other Government health programs are the source of roughly 6 percent ($236 per capita) of personal health care expenditures for people 65 years of age and over.

Consumers are responsible for the remaining one-third ($1,379 per capita) of spending for the aged. One-quarter ($1,059 per capita) of the total health bill for the aged was paid by direct patient payments, also termed out-of-pocket expenses. Out-of-pocket payments by the elderly represent the difference between total health expenditures by the aged and known third-party (public expenditures and private insurance) payments. These out-of-pocket payments include Medicare copayments (less any benefits paid for by so-called "medigap" policies), collected reasonable charge reductions, net private health insurance copayments, and the purchase of care not covered by any third party. It is important to note that direct out-of-pocket payments to providers are not the only expenditures by the aged for health care. The aged also pay supplementary medical insurance (SMI or part B) and private health insurance premiums which are not defined as out-of-pocket expenditures. Private health insurance, including medigap policies, covers an additional estimated 7 percent ($304 per capita) of personal health care expenditures for the elderly.

It is difficult to estimate precisely the share of the elderly's income which is spent on health care. There are little data available which examine this question directly. Therefore, these estimates require many assumptions and must be based on data from a variety of sources. The House Select Committee on Aging and the Senate Special Committee on Aging each have developed estimates of these amounts. They both estimated that the elderly's out-of-pocket health care costs as a percentage of mean income were about 12 percent in 1977 and about 15 percent in 1984.[1]

---

[1] House Select Committee on Aging, press release, October 31, 1984. Senate Special Committee on Aging, Medicare and the Health Costs of Older Americans: The Extent and Effects of Cost Sharing, committee print, April 1984.

TABLE 8.—PERSONAL HEALTH CARE EXPENDITURES FOR PEOPLE 65 YEARS OF AGE OR OVER, BY SOURCE OF FUNDS AND TYPE OF SERVICE, 1977 AND 1984

[In millions of dollars]

Year and source of funds	Type of service				
	Total care	Hospital	Physician	Nursing home	Other care
1977					
Total	43,425	18,906	7,782	10,696	6,041
Private	15,669	2,319	3,323	5,424	4,603
Consumer	15,499	2,263	3,320	5,352	4,564
Out-of-pocket	12,706	927	2,147	5,264	4,368
Insurance	2,793	1,336	1,173	88	195
Other private	170	56	3	72	39
Government	27,756	16,587	4,458	5,272	1,438
Medicare	19,171	14,087	4,158	348	578
Medicaid	6,049	733	232	4,453	631
Other government	2,536	1,767	68	470	230
Exhibit: Population (in millions)	24.3				
1984					
Total	119,872	54,200	24,770	25,105	15,798
Private	39,341	6,160	9,827	13,038	10,316
Consumer	38,875	5,964	9,818	12,856	10,237
Out-of-pocket	30,198	1,694	6,468	12,569	9,467
Insurance	8,677	4,270	3,350	287	770
Other private	466	196	9	182	79
Government	80,531	48,040	14,943	12,067	5,482
Medicare	58,519	40,524	14,314	539	3,142
Medicaid	15,288	2,595	467	10,418	1,808
Other government	6,724	4,920	162	1,110	532
Exhibit: Population (in millions)	28.5				

Source: Office of Financial and Actuarial Analysis, Health Care Financing Administration as reported in Waldo, Daniel R., and Helen C. Lazenby. "Demographic characteristics and health care use and expenditures by the aged in the United States: 1977–1984." Health Care Financing Review, fall 1984, p. 1.

TABLE 9.—PERSONAL HEALTH CARE EXPENDITURES PER CAPITA FOR PEOPLE 65 YEARS OF AGE OR OVER, BY SOURCE OF FUNDS AND TYPE OF SERVICE, 1977 AND 1984

Year and source of funds	Type of service				
	Total care	Hospital	Physician	Nursing	Other care
1977					
Total	$1,785	$777	$230	$440	$248
Private	644	95	137	223	189
Consumer	637	93	136	220	188
Out-of-pocket	522	38	88	216	180
Insurance	115	55	48	4	8
Other private	7	2	([1])	3	2
Government	1,141	682	183	217	59
Medicare	788	579	171	14	24
Medicaid	249	30	10	183	26
Other government	104	73	3	19	9
1984					
Total	4,202	1,900	868	880	554
Private	1,379	216	344	457	362
Consumer	1,363	209	344	451	359
Out-of-pocket	1,059	59	227	441	332
Insurance	304	150	117	10	27
Other private	16	7	([1])	6	3
Government	2,823	1,684	524	423	192
Medicare	2,051	1,420	502	19	110
Medicaid	536	91	16	365	63
Other government	236	172	6	39	19

[1] Less than $.50.

Source: Office of Financial and Actuarial Analysis, Health Care Financing Administration as reported in Waldo, Daniel, R., and Helen C. Lazenby. "Demographic characteristics and health care use and expenditures by the aged in the United States: 1977–1984." Health Care Financing Review, fall 1984, p. 1.

TABLE 10.—PERCENT DISTRIBUTION OF PERSONAL HEALTH CARE EXPENDITURES PER CAPITA FOR PEOPLE 65 YEARS OF AGE OR OVER, BY SOURCE OF FUNDS AND TYPE OF SERVICE: 1977 AND 1984

Year and source of funds	Type of service				
	Total care	Hospital	Physician	Nursing home	Other care
1977					
Total per capita	100.0	100.0	100.0	100.0	100.0
Private	36.1	12.3	42.7	50.7	76.2
Consumer	35.7	12.0	42.7	50.0	75.5
Out-of-pocket	29.3	4.9	27.6	49.2	72.3
Insurance	6.4	7.1	15.1	0.8	3.2
Other private	0.4	0.3	.0	0.7	0.6
Government	63.9	87.7	57.3	49.3	23.8
Medicare	44.1	74.5	53.4	3.3	9.6
Medicaid	13.9	3.9	3.0	41.6	10.4
Other government	5.8	9.3	0.9	4.4	3.8
1984					
Total per capita	100.0	100.0	100.0	100.0	100.0
Private	32.8	11.4	39.7	51.9	65.3
Consumer	32.4	11.0	39.6	51.2	64.8
Out-of-pocket	25.2	3.1	26.1	50.1	59.9
Insurance	7.2	7.9	13.5	1.1	4.9
Other private	0.4	0.4	.0	0.7	0.5
Government	67.2	88.6	60.3	48.1	34.7
Medicare	48.8	74.8	57.8	2.1	19.9
Medicaid	12.8	4.8	1.9	41.5	11.4
Other government	5.6	9.1	0.7	4.4	3.4

Source: Office of Financial and Actuarial Analysis, Health Care Financing Administration as reported in Waldo, Daniel, R., and Helen C. Lazenby. "Demographic characteristic and health care use and expenditures by the aged in the United States: 1977–1984." Health Care Financing Review, fall 1981, p. 1.

EXPENDITURES FOR HOSPITAL CARE BY THE ELDERLY

Medicare is now paying a slightly larger proportion of the hospital bills for the aged. In 1977, $18.9 billion was spent on hospital care for persons 65 and over. Of this amount, the Medicare program paid $14.1 billion, or 74.5 percent. In 1984, hospital care expenditures for the aged are estimated to be $54.2 billion; the Medicare program is estimated to pay $40.5 billion or 74.8 percent of all hospital care expenditures for the aged (see tables 8–10).

It is estimated that approximately 69 percent of all Medicare benefits in 1984 went for hospital care ($40.5 billion out of a benefit total of $58.5 billion). This percentage is slightly lower than in 1970, when 71.8 percent of Medicare benefits went for hospital care ($5.1 billion out of a benefit total of $7.1 billion).

Total Medicare reimbursement to short-stay hospitals more than quadrupled from 1970 to 1981, increasing from $4.5 billion to $24.7 billion, an average annual increase of approximately 15 percent. During this period, the average reimbursement to short-stay hospitals per discharged Medicare enrollee rose from $763 to $2,434, despite a decrease from 13.1 days to 10.3 days in the average length of stay for each discharged enrollee. The average reimbursement per hospital day covered by the program increased from $60 in 1970 to $241 in 1981. The increase in Medicare short-stay hospital reimbursements between 1970 to 1981 was primarily a function of the increased cost of hospital care as measured by reimbursement per covered day (see table 11).

TABLE 11.—USE OF SHORT STAY HOSPITAL SERVICES BY MEDICARE HOSPITAL INSURANCE (HI) BENEFICIARIES: NUMBER OF HI ENROLLEES AND DISCHARGES, DAYS OF CARE, CHARGES, AND REIMBURSEMENT, CALENDAR YEARS, 1970–81 [1]

Year	Number of enrollees	Number of discharges	Mean length of stay (in days)		Days of care			Total charges			Reimbursement		
			Total	Covered	Total number (thousands)	Covered							
			Amount (thousands)	Per discharge		Number (thousands)	Percent of total days	Amount (thousands)	Per discharge	Per day	Amount (thousands)	Per discharge	Percent of total charges
1970 [2]	20,361,152	5,920,320	13.1	12.8	77,652	75,914	97.7	$5,903,690	$998	$76	$4,517,654	$763	76.4
1971 [2]	20,742,250	6,111,835	12.7	12.3	77,395	75,313	97.3	6,733,494	1,102	87	5,129,245	839	76.1
1972 [2]	21,115,261	6,495,050	12.3	11.8	79,809	76,788	96.2	7,560,301	1,164	95	5,709,189	879	75.5
1973 [2]	23,301,082	6,861,125	11.9	11.3	81,380	77,663	95.4	8,269,144	1,207	102	6,253,014	911	75.6
1974	23,924,145	7,039,345	11.6	11.3	81,766	79,798	97.0	9,779,034	1,389	120	7,346,544	1,044	75.0
1975	24,640,497	7,443,425	11.4	11.2	84,637	83,179	98.0	12,385,397	1,664	146	9,262,624	1,244	74.0
1976	25,312,575	8,361,720	11.3	11.1	94,169	92,578	98.0	16,094,865	1,925	171	11,980,874	1,433	74.0
1977	26,093,919	8,818,735	11.0	10.8	97,025	95,298	98.0	19,205,304	2,178	198	13,974,943	1,585	72.0
1978	26,777,263	9,188,140	10.8	10.6	99,301	97,553	98.0	22,368,244	2,434	225	16,005,245	1,742	71.0
1979	27,459,157	9,623,290	10.7	10.4	102,694	100,271	97.0	26,042,574	2,706	254	18,410,379	1,913	70.0
1980	28,066,894	10,234,980	10.6	10.3	108,531	105,932	97.0	31,792,888	3,106	293	21,967,644	2,146	69.0
1981	28,589,504	10,142,365	10.3	10.1	104,929	102,337	97.0	32,655,713	3,220	311	24,689,269	2,434	75.0

[1] 1970–73 data based on bills processed through December 1980; 1974–1981 data from bills processed through June 1982.

[2] Prior to 1973, services were covered only for beneficiaries aged 65 and over. Effective July 1, 1973, HI benefits were extended to persons under 65 years of age who were entitled to cash benefits for not less than 24 consecutive months under the disability insurance program and to persons with End-Stage Renal Disease (ESRD).

Source: Unpublished data provided by the Bureau of Data Management and Strategy, HCFA, from Medicare Health Insurance Master Files.

EXPENDITURES FOR PHYSICIAN SERVICES BY THE ELDERLY

Total expenditures for physicians' services for the aged grew an average of 18 percent per year from $7.8 billion in 1977 to an estimated level of $24.8 billion in 1984 (see table 9). Medicare was estimated to have paid the largest share, nearly 58 percent, of the $868 per capita projected amount spent by the elderly in 1984. Direct patient payments—including coinsurance, deductibles, and services not covered by third parties—accounted for about 26 percent. Private insurers were estimated to pay almost 14 percent of the total. Government programs other than Medicare, including Medicaid, were estimated to cover about 3 percent. These proportions were similar in 1977.

The percentage of total physician services paid for by Medicare has declined slightly since the early years of the program from 57.3 percent in fiscal year 1968 to 57.8 percent in calendar year 1984. At the same time there has been a significant increase in reasonable charge reductions for unassigned Medicare claims; the average amount reduced per approved unassigned claim was $28.69 in calendar year 1983. These reductions can become an out-of-pocket expense for beneficiaries.

DISTRIBUTION OF PER RECIPIENT MEDICARE EXPENDITURES AND DEDUCTIBLE AND COPAYMENT AMOUNTS

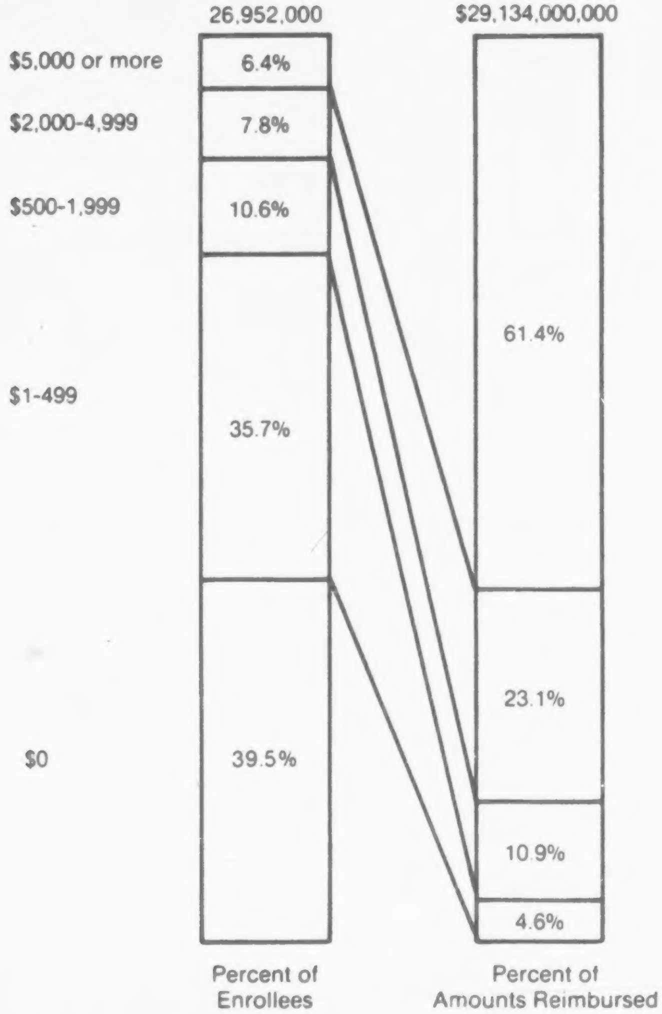
A significant portion of Medicare beneficiaries receive no reimbursement for Medicare services in a given year. Under the part A program in 1983 there were 29.1 million beneficiaries with hospital insurance protection. Of this number only 7.4 million (25.4 percent) received any reimbursed services under part A of the program. Thus, 21.7 million or 74.6 percent of beneficiaries eligible under part A received no reimbursed service.

Under part B of the program in 1983 there were 28.7 million beneficiaries with part B coverage. Of this total, 19.6 million (68.2 percent) received reimbursed services. Thus, 9.1 million or 31.8 percent of eligible beneficiaries under the part B program received no reimbursed services under the program.

Medicare per capita expenditure amounts for the aged do not reflect the considerable variations which exist. In 1980, 75.2 percent of aged persons receiving services reimbursed under parts A and/or B had Medicare reimbursements totaling less than $500; expenditures for these persons accounted for only 4.6 percent of the total amounts reimbursed. On the other hand, 14.2 percent of persons receiving services under parts A and/or B had Medicare reimbursements totaling over $2,000; expenditures for these persons accounted for 84.5 percent of the total (see figure 1).

In 1982, about 33 percent of aged persons had Medicare reimbursements totaling less than $500; expenditures for these persons accounted for 3.5 percent of the total amounts reimbursed. Some 13 percent had Medicare reimbursements totaling over $3,000; expenditures for these persons accounted for 82 percent of the total (see table 12).

FIGURE 1.—Percent Distribution of Aged Persons Served and Amounts Reimbursed Under Hospital Insurance and/or Supplementary Medical Insurance by Amounts Reimbursed, 1980



Source: The Medicare and Medicaid Data Book, 1983, Health Care Financing Program Statistics, HCFA Pub. No. 03156, DHHS, December 1983, p. 28.

The following table provides additional information on the distribution of Medicare and expenditures for the aged.

TABLE 12.—NUMBER AND PERCENTAGE DISTRIBUTION OF AGED PERSONS RECEIVING SERVICES AND AMOUNTS REIMBURSED UNDER HOSPITAL INSURANCE AND/OR SUPPLEMENTARY MEDICAL INSURANCE BY AMOUNTS REIMBURSED, 1982

Item	Enrollees			Reimbursement		
	Number in millions	Percent distribution	Cumulative percent	Amount in millions	Percent distribution	Cumulative percent
1982						
All aged persons enrolled	28.0	100.0		$41,526	100.0	
Persons with no reimbursement	11.0	39.2	100.0			
Persons with reimbursement [1]	17.0	60.8		41,526	100.0	
Reimbursement interval:						
Less than $100	4.1	14.7	60.8	188	0.5	100.0
$100 to $499	5.1	18.2	46.2	1,225	3.0	99.5
$500 to $1,499	2.4	8.4	27.9	2,119	5.1	96.6
$1,500 to $2,999	1.7	6.2	19.5	3,788	9.1	91.5
$3,000 to $4,999	1.3	4.5	13.3	4,954	11.9	82.4
$5,000 to $9,999	1.4	4.9	8.8	9,707	23.4	70.4
$10,000 to $14,999	0.5	1.9	3.9	6,527	15.7	47.1
$15,000 or more	0.5	1.9	1.9	13,017	31.3	31.3

[1] Data include experience for persons who exceeded the annual Medicare deductibles and for whom reimbursements were made.

Note: Based on a 5-percent sample.

Source: Bureau of Data Management and Strategy, Health Care Financing Administration and unpublished data.

The preceding discussion has focused on the distribution of medicare reimbursements. Similar data is also available on the liability of medicare beneficiaries, defined as the deductible and coinsurance amounts. It does not include liability for medical service not covered by Medicare or for any liability due to unassigned Medicare claims. It also does not include part B premiums paid by beneficiaries. In 1980, 75.2 percent of aged persons enrolled in both parts A and B had less than $200 in liability for such expenses. On the other hand, enrollees at the high end of the scale were liable for most of the cost sharing owed.

TABLE 13.—DISTRIBUTION OF MEDICARE ENROLLEES AGED 65 AND DISTRIBUTION OF PART A AND PART B COMBINED LIABILITY, 1980 [1]

Liability category	Distribution of enrollee		Distribution of liability	
	Numbers	Percent	Dollars (thousands)	Percent
Total	25,104,680	100.0	4,513,898	100.0
0 to $69	13,107,540	52.2	473,663	10.5
$70 to $119	3,956,460	15.8	366,081	8.1
$120 to $169	1,428,680	5.7	199,859	4.4
$170 to $179	148,200	.6	25,841	.6
$180 to $189	122,200	.5	22,526	.5
$190 to $199	112,960	.4	21,935	.5
$200 to $209	95,100	.4	19,439	.4

TABLE 13.—DISTRIBUTION OF MEDICARE ENROLLEES AGED 65 AND DISTRIBUTION OF PART A AND PART B COMBINED LIABILITY, 1980 [1]—Continued

Liability category	Distribution of enrollee		Distribution of liability	
	Numbers	Percent	Dollars (thousands)	Percent
$210 to $219	152,840	.6	32,543	.7
$220 to $229	97,400	.4	21,872	.5
$230 to $269	582,120	2.3	146,445	3.2
$270 to $469	2,770,780	11.0	973,879	21.6
$470 to $969	1,979,640	7.9	1,273,110	28.2
$970 to $1,469	341,040	1.4	396,540	8.8
$1,470 and over	209,720	.8	540,166	12.0

[1] Tables adjusted to take into account the missing Part B deductions, estimated to be about $30 per enrollee in 1980.

Source: Gornick, Marian, James Beebe, and Ronald Prihoda, "Options for Change under Medicare Impact of a Cap on Catastrophic Illness Expense." Health Care Financing Review, fall 1983, p. 37.

SUPPLY OF HOSPITAL BEDS AND PHYSICIANS

The national supply of community hospital beds per 1,000 population has steadily increased since the 1940's, reaching a peak of 4.6 beds per 1,000 population in 1975. By 1982, the number of beds had dropped to 4.4 per 1,000 population. Similar trends can be seen in the nine census regions, except for New England, which has seen a reduction since 1940 from 4.4 beds to 4.1 beds per 1,000 population in 1982, and the Pacific region, where the reduction has been from 4.1 beds in 1940 to 3.3 in 1982. The area experiencing the largest increase has been the East South Central, where beds increased from 1.7 per 1,000 population in 1940 to 5.1 in 1982 (see table 14).

TABLE 14.—HOSPITAL BEDS PER 1,000 POPULATION,[1] ACCORDING TO GEOGRAPHIC DIVISION: UNITED STATES, SELECTED YEARS 1940–82

[Data are based on reporting by facilities]

Geographic division	Year						
	1940 [2]	1950 [2]	1960 [3]	1970	1975	1980	1982
United States	3.2	3.3	3.6	4.3	4.6	4.5	4.4
New England	4.4	4.2	3.9	4.1	4.2	4.1	4.1
Middle Atlantic	3.9	3.8	4.0	4.4	4.6	4.6	4.6
East North Central	3.2	3.2	3.6	4.4	4.7	4.7	4.8
West North Central	3.1	3.7	4.3	5.7	5.8	5.8	5.9
South Atlantic	2.5	2.8	3.3	4.0	4.3	4.5	4.4
Eastf South Central	1.7	2.1	3.0	4.4	4.9	5.1	5.1
West South Central	2.1	2.7	3.3	4.3	4.7	4.7	4.4
Mountain	3.6	3.8	3.5	4.3	4.0	3.8	3.6

TABLE 14.—HOSPITAL BEDS PER 1,000 POPULATION,[1] ACCORDING TO GEOGRAPHIC DIVISION: UNITED STATES, SELECTED YEARS 1940–82—Continued

[Data are based on reporting by facilities]

Geographic division	Year						
	1940[2]	1950[2]	1960[3]	1970	1975	1980	1982
Pacific	4.1	3.2	3.1	3.7	3.9	3.5	3.3

[1] Civilian population.
[2] 1940 and 1950 data are estimated based on published figures.
[3] 1960 includes hospital units of institutions.

Note. Hospitals include all non-Federal short-stay hospitals classified by the American Hospital Association according to one of the following services: general medical and surgical; obstetrics and gynecology; eye, ear, nose, and throat, rehabilitation; orthopedic; other specialty; children's general; children's eye, ear, nose, and throat; children's rehabilitation; children's orthopedic; and children's other specialty.

Source: Health, United States, 1984. U.S. Department of Health and Human Services. DHHS Publication No. (PHS) 85-1232, Table 66, pp. 127–128.

The number of active physicians in the country has increased from 279,212 in 1970 to 419,870 in 1981. This growth rate exceeded the rate at which the population of the Nation grew during the decade. As table 15 below indicates, the ratio of physicians-to-population increased from 137 physicians per 100,000 population in 1970 to 206 physicians per 100,00 population in 1982. This table also indicates variations in the supply of physicians relative to population by State. In 1982, the District of Columbia had the highest ratio (573 physicians per 100,000 population) while Idaho had the lowest ratio (124 physicians per 100,000 population).

TABLE 15.—NON-FEDERAL PHYSICIAN/POPULATION RATIOS AND RANK BY STATE

[Ratios: Non-Federal physicians (M.D.'s) per 100,000 civilian population]

Geographic area	1970	1975[1]	1982	1982 rank
United States[2]	137	156	206	
Alabama	84	100	139	45
Alaska	65	92	134	47
Arizona	123	151	213	13
Arkansas	85	95	140	44
California	175	196	258	6
Colorado	163	172	210	15
Connecticut	178	207	280	5
Delaware	124	138	188	21
District of Columbia	365	436	573	1
Florida	124	155	219	11
Georgia	100	119	156	36
Hawaii	138	160	231	8
Idaho	87	95	124	50
Illinois	130	156	205	16

TABLE 15.—NON-FEDERAL PHYSICIAN/POPULATION RATIOS AND RANK BY STATE—Continued

[Ratios: Non-Federal physicians (M.D.'s) per 100,000 civilian population]

Geographic area	1970	1975 [1]	1982	1982 rank
Indiana	96	109	143	42
Iowa	97	105	142	43
Kansas	108	128	173	29
Kentucky	96	117	151	39
Louisiana	114	127	170	32
Maine	98	122	180	24
Maryland	171	206	300	3
Massachusetts	194	222	306	2
Michigan	117	135	178	26
Minnesota	142	162	211	14
Mississippi	78	87	120	51
Missouri	120	141	181	23
Montana	97	111	146	41
Nebraska	106	124	162	34
Nevada	102	117	159	35
New Hampshire	125	146	195	20
New Jersey	136	162	220	10
New Mexico	103	121	174	27
New York	223	235	300	4
North Carolina	103	124	170	31
North Dakota	88	104	151	38
Ohio	125	137	183	22
Oklahoma	94	108	138	46
Oregon	133	160	203	17
Pennsylvania	143	158	214	12
Rhode Island	143	175	230	9
South Carolina	85	106	149	40
South Dakota	76	83	131	48
Tennessee	113	134	172	30
Texas	109	129	164	33
Utah	129	150	174	28
Vermont	169	189	250	7
Virginia	113	136	197	19
Washington	136	154	203	18
West Virginia	98	120	153	37
Wisconsin	113	129	178	25
Wyoming	91	100	130	49

---

[1] Numbers of active non-Federal physicians are adjusted for 1975 to include about 90 percent of those not classified as to status or activity by the American Medical Association.

[2] Excludes counts of physicians in U.S. possessions and with unknown addresses.

Source: Supply and Characteristics of Selected Health Personnel, U.S. Department of Health and Human Services, Bureau of Health Professions, DHHS Pub. No. (HRA) 81-20, June 1981, p. 23, and unpublished data from the Bureau of Health Professions, based on data from the American Medical Association, Division of Survey and Data Resources. 1982 data from Physician Characteristics and Distribution in the U.S., 1983 Edition, American Medical Association, Division of Survey and Data Resources, Department of Data Release Services.

The number of physicians in the United States is expected to continue to grow at a faster rate than the general population. Department of Health and Human Services' projections of physicians-to-population ratios indicate that there will be 221.2 active physicians (M.D.'s) per 100,000 population in 1985, 238.1 in 1990, 251.8 in 1995, and 263.6 in 2000.

HEALTH INSURANCE COVERAGE OF THE ELDERLY

According to data collected in the March 1984 Current Population Survey, 98.9 percent of persons age 65 and over (or approximately 25 million persons) had medical coverage through either a private source (such as an employer group health plan or other privately purchased health insurance) or through a public program (such as Medicare, Medicaid, CHAMPUS, Veterans Administration, or military health care). As shown in table 16 below, most persons age 65 and over (96.1 percent) are covered under the Medicare program, 60.5 percent are covered under private health insurance plans (either employer group plans or other health insurance) and 11 percent are covered by Medicaid. The nonpoor aged had higher reported rates of coverage for all forms of health coverage, except for Medicaid, than did the aged poor.

TABLE 16.—MEDICAL COVERAGE FOR THE AGED, BY POVERTY STATUS, 1983

[In percent]

	Total	Poor	Nonpoor
Persons age 65 and over (number in thousands)	(26,291)	(3,711)	22,580
Total	100.0	100.0	100.0
No medical coverage	1.1	2.9	.8
Any medical coverage	98.9	97.1	99.2
Employer group health	6.6	.8	7.2
Medicare	96.1	95.4	96.2
Medicaid	11.0	33.2	7.3
CHAMPUS, VA, or military health care	3.3	1.4	3.6
Other health insurance	53.9	26.6	58.4

Source: March 1984 Current Population Survey (CPS). Table prepared by the Congressional Research Service, Education and Public Welfare Division.

APPENDIX D. REIMBURSEMENT FOR HOSPITALS AND PHYSICIANS UNDER MEDICARE [1]

REIMBURSEMENT TO HOSPITALS

Before the passage of Public Law 98-21 (the Social Security Amendments of 1983), the Medicare program reimbursed hospitals according to the reasonable costs they incurred in providing services to Medicare beneficiaries. Because the actual reasonable costs could not be determined until after the hospital had provided the services and reported its costs to the Medicare program, this method of reimbursement was known as retrospective cost-based reimbursement.

Public Law 92-603 authorized the Department of Health and Human Services (HHS) to place certain limits on routine operating costs recognized as reasonable (referred to as section 223 limits for the specific section in the law). Public Law 97-248, the Tax Equity and Fiscal Responsibility Act of 1982 (commonly referred to as TEFRA) expanded previously existing limits to include all other inpatient hospital operating costs. Further, it established a new 3-year Medicare ceiling (or target rate) on the allowable annual rate of increase in operating costs per case for inpatient hospital services. TEFRA also required that HHS develop proposals for the prospective payment of hospitals under Medicare. The proposal from HHS was presented to the Congress at the end of 1982 and became the basis for Public Law 98-21.

The following is a description of the major reimbursement provisions of Public Law 98-21 as amended by Public Law 98-369 (the Deficit Reduction Act of 1984, or DEFRA) and as implemented by final rules issued August 31, 1984. Further on in this appendix is a description of certain changes to the prospective payment system made by law and regulations.

General Summary

Effective for hospital cost reporting periods that began on or after October 1, 1983, Medicare payment for hospital inpatient services is made according to a prospective payment system, rather than on a reasonable cost basis. Medicare payments are made at predetermined, specific rates which represent the average cost, nationwide, of treating a Medicare patient according to his or her diagnosis. The classification system used to group hospital inpatients according to their diagnoses is known as diagnosis-related groups (DRG's). Separate DRG rates apply depending on whether a hospital is located in an urban or rural area of the country, as determined by the Office of Management and Budget's Metropolitan Statistical Area system. During a 3-year transition period, a declining portion of the total prospective payment is based on a hospital's historical reasonable costs and an increasing portion is based on a combination of regional and national Federal DRG rates. In the fourth year of the program (fiscal year 1987) and thereafter, medicare payments are determined totally under a national DRG payment methodology.

---

[1] This appendix draws heavily from two Congressional Research Service Issue Briefs: "Medicare Prospective Payments for Inpatient Hospital Services" and "Medicare: Physician Payments."

If a hospital can treat a patient for less than the payment amount, it can keep the savings. If the treatment costs more, the hospital must absorb the loss. A hospital is prohibited from charging Medicare beneficiaries any amounts (except for deductibles, coinsurance amounts, and services not covered by Medicare) which represent any difference between the hospital's cost of providing covered care and the Medicare DRG payment amount. Under the regulations, the hospital may charge for medically unnecessary services and custodial care furnished to beneficiaries who elect to stay in the hospital at a time beginning more than 2 days after the beneficiary has been notified that inpatient hospital care is no longer required.

Certain hospital costs are excluded from the prospective payment system and are paid on a reasonable cost basis. In addition, certain hospitals are excluded from the new system and are reimbursed on a reasonable cost basis, subject to the rate of increase limits provided in TEFRA. Authority is provided for States to establish their own hospital payment systems if they meet certain Federal requirements.

PROSPECTIVE PAYMENT SYSTEM

Unless excluded from the prospective payment system, all Medicare participating hospitals are paid a specific amount for inpatient services provided to Medicare beneficiaries based on the patient's classification into one of 468 DRG's. Separate DRG rates apply to hospitals located in urban or rural areas of the country as determined by OMB's Metropolitan Statistical Area system (urban rates are higher than rural rates). Hospitals located in areas reclassified from urban to rural are allowed a 2-year transition to rural rates. In addition, the DRG rates are adjusted for area differences in hospitals wage levels compared to the national average hospital wage level.

Effective date/transition period

Application of the DRG payment rates (urban and rural) has been phased in over a 3-year transition period, starting with each hospital's first cost reporting period which began on or after October 1, 1983. During the transition period, a hospital's payment rate is a combination of the Federal DRG payment rates and a hospital's historical costs; in addition, during the transition, the Federal DRG portion of the rate is based on a combination of national rates and regional rates for each of the nine census regions of the country. (See table 1.) Thus, during the first year of the program (fiscal year 1984), 25 percent of the prospective payment was based on Federal DRG rates (100 percent regional) and 75 percent was based on each hospital's cost base. In the second year (fiscal year 1985), 50 percent of the payment was based on a combination of national and regional Federal DRG rates (25 percent national, 75 percent regional) and 50 percent was based on each hospital's cost base. In the third year (fiscal year 1986), 75 percent of the payment is based on a combination of national and regional Federal DRG rates (50 percent national, 50 percent regional) and 25 percent is based on each hospital's cost base. In the fourth year (fiscal year 1987), 100 percent of the payment will be determined under the national Federal DRG payment methodology.

TABLE 1.—PHASE-IN SCHEDULE FOR THE NATIONAL FEDERAL DRG PAYMENT RATES

Fiscal year [1]	Hospital specific portion (percent)	Federal DRG portion
1984	75	25 percent (0 percent national plus 100 percent regional).
1985	50	50 percent (25 percent national plus 75 percent regional).
1986	25	75 percent (50 percent national plus 50 percent regional).
1987	0	100 percent (100 percent national plus 0 percent regional).

[1] The hospital specific portion (HSP) amount and the proportional shares of the HSP and the Federal DRG amount change with the beginning of the hospital's fiscal year. The Federal (national and regional) rates and their proportional shares change with the beginning of the Federal fiscal year.

DRG payment levels and updating

The payment rates for each DRG were derived from an average of historical (1981) Medicare cost data for each hospital. The rates were updated through fiscal year 1983 by the estimated actual rate of increase in hospital costs nationally. By law, the rates were increased for fiscal year 1984 by the estimated annual increase in a market basket index representing the cost of goods and services purchased by hospitals, plus 1 percentage point. For fiscal year 1985, the rate of increase was by law the increase in the market basket, plus one-quarter of 1 percentage point. For fiscal years 1984 and 1985, the DRG rates were adjusted so that the total payments under the prospective system equaled the payments which would have been made under the reasonable cost reimbursement provisions of prior law as limited by the target rate of increase provisions established by TEFRA (this requirement is known as "budget neutrality").

The market basket is defined in table 2. This is a uniform index for all hospitals and yields one price inflator for all hospitals in a given year. The relative importance of the different categories of cost changes periodically.

TABLE 2.—HOSPITAL PROSPECTIVE REIMBURSEMENT INPUT PRICE INDEX (THE "MARKET BASKET")

Category of costs [1]	Relative importance, 1981 [2]	Price variable used
1. Wages and salaries........	56.53	Percentage change in average hourly earnings of hospital industry workers (SIC 806).
2. Employee benefits..........	8.16	Percentage change in supplements to wages and salaries per worker in nonagricultural establishments.
3. Professional fees, other (legal, auditing, consulting, etc.).	0.56	Percentage change in hourly earnings index for production or nonsupervisory workers on private nonagricultural payrolls, total private.
4. Malpractice insurance.....	2.12	Percentage change in hospital malpractice insurance premiums.
5. Food..............................	3.32	(a) Percentage change in food and beverages component of Consumer Price Index, All Urban (relative importance, 1.71). (b) Percentage change in processed foods and feeds component of Producer Price Index (relative importance, 1.61).
6. Fuel and other utilities...	3.52	(a) Percentage change in implicit price deflator—consumption of fuel oil and coal (derived from fuel oil component of Consumer Price Index) (relative importance, 1.73). (b) Percentage change in implicit price deflator—consumption of electricity (derived from electricity component of Consumer Price Index) (relative importance, 0.80). (c) Percentage change in implicit price deflator for natural gas, derived from utility (piped) gas component of Consumer Price Index (relative importance, 0.67). (d) Percentage change in water and sewerage maintenance component of Consumer Price Index (relative importance, 0.32).
7. Drugs............................	2.61	Percentage change in pharmaceutical preparations, ethical component of Producer Price Index.
8. Chemicals and cleaning products.	2.17	Percentage change in chemicals and allied products components of Producer Price Index.
9. Surgical and medical instruments and supplies.	2.09	Percentage change in special industry machinery and equipment component of Producer Price Index.
10. Rubber and miscellaneous plastics.	1.73	Percentage change in rubber and plastic products component of Producer Price Index.
11. Business travel and motor freight.	1.84	Percentage change in transportation component of Consumer Price Index. All Urban.
12. Apparel and textiles........	1.45	Percentage change in textile products and apparel component of Producer Price Index.

TABLE 2.—HOSPITAL PROSPECTIVE REIMBURSEMENT INPUT PRICE INDEX (THE "MARKET BASKET")—Continued

Category of costs [1]	Relative importance, 1981 [2]	Price variable used
13. Business services	5.00	Percentage change in services component of Consumer Price Index. All Urban.
14. All other miscellaneous expenses.[3]	8.90	Percentage change of Consumer Price Index for all items. All Urban.
Total	100.00	

[1] Costs not within the scope of the limits (i.e. capital, medical education, and medical professional fees) were excluded in deriving the input price index.

[2] A Laspeyres price index was constructed using 1977 base value weights and the price variables indicated in the table. Base value weights (cost shares) were derived from special studies by the Health Care Financing Administration using primarily data from the American Hospital Association and the Interindustry Economics Division of the Bureau of Economic Analysis, U.S. Department of Commerce. In 1977 each price variable has an index value of 100.00. The "relative importance" changes over time in accordance with price changes for each variable. Cost categories with relatively higher price increases get higher relative importance values and vice versa. For an explanation of the basic methodology used, see Freeland, Mark S., Anderson, Gerard, and Schendler, Carol Ellen, "National Hospital Input Price Index," Health Care Financing Review, Summer 1979, pp. 37–61.

[3] This is a residual category of costs not included in the 13 specific categories above. It consists primarily of miscellaneous and unallocated items.

Source: 48 F.R. 39845–39846, Sept. 1, 1983.

For each fiscal year beginning with fiscal year 1986, the Secretary of HHS is required to determine an appropriate increase in the DRG payments, taking into consideration the recommendations of the Prospective Payment Assessment Commission. However, by law, in fiscal year 1986 the increase may not exceed market basket plus one-quarter of a percentage point.

In addition to determining yearly increases in the DRG payment rates for fiscal year 1986 and thereafter, the Secretary is also required to adjust the DRG classification and weighting factors in fiscal year 1986 and at least every 4 years thereafter to reflect changes in treatment patterns, technology, and other factors which may change the relative use of hospital resources.

Additional payment amounts

In addition to the DRG prospective payment rates, Medicare payments are made to hospitals for the following items or services:

Outliers

Additional amounts are paid to hospitals for atypical cases (known as "outliers") which have either extremely long lengths of stay or extraordinarily high costs compared to most discharges classified in the same DRG. The law requires that total outlier payments to hospitals covered by the system represent no less than 5 percent and no more than 6 percent of the total estimated Medicare prospective payments for the fiscal year. The Health Care Financing Administration (HCFA) has reduced the amount of funds available for outlier payments from 5.7 percent of total hospital payments in fiscal year 1984 to 5 percent in fiscal year 1985. Effective with discharges occurring on or after October 1, 1984, a transferring hospital may qualify for an additional payment for extraordinarily high-cost cases meeting the criteria for cost outliers.

Indirect medical education costs

Additional payments are made to hospitals under the prospective system for the indirect costs of approved medical education programs. Such payments equal a certain percentage of a hospital's total yearly revenues from the Federal portion of the prospective payments, adjusted by a factor using the hospital's ratio of interns and residents to beds as a surrogate to measure the relative intensity of the hospital's teaching activity.

Payments on a reasonable cost basis

Costs for certain items are excluded from the prospective payment system and thus are not included in the prospective payment rates. Medicare will pay for its share of the following such costs separately from the DRG payment system, according to the former reasonable cost-based system:

Capital-related costs.—Capital-related costs (including depreciation, leases and rentals, interest, and a return on equity for proprietary hospitals) are excluded from the prospective payment system until October 1, 1986 and are paid for on a reasonable cost basis. The Secretary was required to report to Congress within 18 months of enactment (October 1984) on methods and proposals by which capital costs can be included in the prospective payment rates. This report has not yet been submitted. Medicare payment for capital costs is prohibited after September 30, 1986, unless a State has a capital expenditure review agreement with the Secretary (under section 1122 of the Social Security Act) and the State has recommended approval of the specific capital expenditure.

Direct medical education costs.—The direct costs (such as salaries for residents and teachers, and classroom costs) of approved medical education programs are excluded from the prospective payment system and are reimbursed on a reasonable cost basis. Such programs may include the training of physicians, nurses, and paraprofessionals; they may not include on-the-job training, patient education, community health awareness programs, or the costs of interns and residents hired to replace anesthetists.

Physicians in teaching hospitals.—If a teaching hospital so elects, the direct medical and surgical services of physicians in such hospitals will be excluded from the prospective payment system and paid for on the basis of reasonable costs.

Kidney acquisition costs.—The estimated net expenses associated with kidney acquisition in certified renal transplantation centers are excluded from the prospective payment system. Prospective payments to a hospital are adjusted in each reporting period to compensate for the reasonable expenses of kidney acquisition.

Anesthesia services of hospital-employed nonphysician anesthetists.—For the cost reporting periods beginning on or after October 1, 1984, and before October 1, 1987, the costs of anesthesia services provided by qualified nonphysician anesthetists employed by the hospital or obtained under arrangements (e.g., certified registered nurse anesthetists and anesthesiology assistants) are excluded from the prospective payment system and are paid for on the basis of reasonable costs.

Bad debts of Medicare beneficiaries

An additional payment is made to hospitals for bad debts attributable to deductible and coinsurance amounts related to covered services received by Medicare beneficiaries.

ESRD beneficiary discharges

Effective with cost reporting periods beginning on or after October 1, 1984, additional payments are made to hospitals for inpatient dialysis provided to end stage renal disease (ESRD) beneficiary discharges. A hospital meeting the criteria is paid an additional payment for each ESRD beneficiary discharge based on the estimated weekly cost of dialysis and the average length of stay of ESRD beneficiaries for the hospital.

Calculation of payment amount for fiscal year 1985

As noted above, during the fiscal year 1984-86 period, payments to an individual hospital for a specific hospital stay are based on a combination of the appropriate Federal DRG rate and the hospital's specific rate (based on its own cost experience). (See table 1.)

Determination of the Federal DRG portion of the payment

For fiscal year 1985, 50 percent of the payment is based on hospital-specific rates and 50 percent is Federal DRG-based. The Federal DRG-based portion is composed of 25 percent national rates and 75 percent regional rates. Over the 3-year transition period, the program will move toward uniform national urban and rural rates, phasing out regional differences.

For fiscal year 1985, the Secretary has promulgated 20 "average adjusted standardized amounts" per Medicare discharge (i.e., an urban amount and a rural amount for each of the nine census regions of the country and for the Nation as a whole). These consist of a labor-related and nonlabor-related component.

TABLE 3.—AVERAGE ADJUSTED STANDARDIZED AMOUNTS FOR FISCAL YEAR 1985 BY CENSUS REGION

[In dollars]

Census region	Urban regional rates			Rural regional rates		
	Total	Labor-related	Nonlabor	Total	Labor-related	Nonlabor
1. New England (CT, ME, MA, NH, RI, VT)	3,122.44	2,453.88	668.56	2,605.26	2,098.04	507.22
2. Middle Atlantic (PA, NJ, NY)	2,866.65	2,205.94	660.71	2,602.61	2,088.21	514.40
3. South Atlantic (DE, DC, FL, GA, MD, NC, SC, VA, WV)	2,909.23	2,296.98	612.25	2,316.89	1,889.46	427.43

TABLE 3.—AVERAGE ADJUSTED STANDARDIZED AMOUNTS FOR FISCAL YEAR 1985 BY CENSUS REGION—Continued

[In dollars]

Census region	Urban regional rates			Rural regional rates		
	Total	Labor-related	Nonlabor	Total	Labor-related	Nonlabor
4. East North Central (IL, IN, MI, OH, WI)	3,164.68	2,452.00	712.68	2,531.16	2,052.37	478.79
5. East South Central (AL, KY, MS, TN)	2,630.36	2,085.43	544.93	2,305.91	1,905.97	399.94
6. West North Central (IA, KS, MN, MO, NE, ND, SD)	3,025.81	2,391.81	634.00	2,326.24	1,915.33	410.91
7. West South Central (AR, LA, OK, TX)	2,847.86	2,248.19	599.67	2,244.09	1,845.62	398.47
8. Mountain (AZ, CO, ID, MT, NV, NM, UT, WY)	2,845.47	2,208.95	636.52	2,360.42	1,913.21	447.21
9. Pacific (AK, CA, HA, OR, WA)	3,070.47	2,325.13	745.34	2,520.98	1,999.49	526.49
National	2,985.05	2,320.61	664.44	2,381.39	1,943.21	438.18

Source: 49 F.R. 34777, Aug. 31, 1984.

The *Federal DRG portion* of the payment rate for each hospital is made up of a *national and a regional component* in fiscal year 1985. To determine the *national component,* the labor-related portion of the national standardized amount is multiplied by the appropriate hospital wage index (classified by Metropolitan Statistical Area or Nonmetropolitan Statistical Area). (See "Source and calculation of the hospital wage index" surrounding table 5.) The wage-adjusted labor-related portion is then added to the nonlabor-related portion of the national standardized amount (after adjustment for hospitals located in Alaska and Hawaii). The resulting total for the national amount is multiplied by 25 percent to determine the national portion in fiscal year 1985. To determine the *regional component,* the labor-related portion of the standardized amount for the hospital's region is multiplied by the appropriate wage index, which is then added to the nonlabor-related portion for that region (after adjustment for hospitals located in Alaska and Hawaii). The resulting total for the regional amount is multiplied by 75 percent to determine the regional portion in fiscal year 1985. These two portions are then added together and multiplied by 50 percent to determine the Federal DRG portion in fiscal year 1985.

For an example of how the computation is made, assume that the hospital is located in Washington, DC (urban area of census region 3 with a hospital wage index of 1.1577). The calculation would be made as follows:

—The labor-related portion of the national standardized amount is $2,320.61. This amount is multiplied by the appropriate hospital wage index (i.e., 1.1577) to give a wage-adjusted labor-related component of $2,686.57. The wage-adjusted labor-related portion is added to the national nonlabor portion ($664.44) for a total of $3,351.01. This amount is multiplied by 25 percent, to yield a national portion of $837.75.

—The labor-related portion of the standardized amount for census region 3 is $2,296.98. This amount is multiplied by the wage index (1.1577) to give a wage-adjusted labor-related component of $2,659.21. The wage-adjusted labor-related portion is added to the nonlabor portion for census region 3 ($612.25) for a total of $3,271.46. This amount is multiplied by 75 percent, to yield a regional portion of $2,453.60.

—The national and regional portions are added together ($3,291.35) and multiplied by 50 percent to yield a Federal DRG portion of $1,645.68.

Determination of the hospital-specific portion of the payment

The *hospital-specific portion (HSP)* of the payment rate is based on a hospital's historical cost experience. For the hospital's 1985 cost reporting year, this amount is derived by multiplying the HSP in the prior year by an updating factor which reflects an adjustment to assure budget neutrality, which varies depending on the hospital's cost reporting period. This amount is then multiplied by 50 percent to determine the HSP portion of the payment rate of 1985.

For a particular hospital, the HSP portion of the rate could look like this:

$2,931.12 x 1.06151 x 50 percent = $1,555.71

Determination of total payment

To determine the total payment to the hospital for a particular DRG in fiscal year 1985, the Federal DRG portion of the payment rate ($1,645.68) and the hospital-specific portion of the payment rate ($1,555.71) are added together. For a specific DRG, this total amount ($3,201.39) is multiplied by the relative weight for that particular DRG. (Each of the 468 DRG's has been assigned its own relative weight. Table 3 shows the relative weights for the 25 highest volume DRG's.) To continue with our example, for DRG 88 (chronic obstructive pulmonary disease), which has a weight of 1.0304, the payment rate for the hospital in our example would be:

$3,201.39 x 1.0304 = $3,298.71

Also shown on table 4 are the geometric mean length of stay (7.5 days for DRG 88) and the outlier threshold, the day on which outlier payments would begin (day 30 for DRG 88).

This methodology is repeated for each DRG case at the hospital to determine total payments to the hospital. Since the DRG weights range from a low of .1823 (for DRG 382, false labor) to a high of 6.7918 (for DRG 457, extensive burns), the payment rates to this particular hospital in 1985 would vary from a low of $583.61 ($3,201.39 x .1823) to a high of $21,743.20 ($3,201.39 x 6.7918).

TABLE 4.—25 HIGHEST VOLUME DIAGNOSIS RELATED GROUPS

Fiscal year 1984 rank	DRG No.	Description	Relative weight	Geometric mean length of stay	Outlier threshold
1	127	Heart failure and shock	1.0300	7.8	30
2	182	Esophagitis, gastroenteritis, and miscellaneous digestive disorders [1].	.6121	5.4	22
3	039	Lens procedure	.4958	2.8	6
4	014	Specific cerebrovascular disorders except transient ischemic attacks.	1.3386	9.9	32
5	140	Angina pectoris	.7470	5.5	21
6	089	Simple pneumonia and pleurisy [1]	1.0914	8.5	31
7	243	Medical back problems	.7473	7.5	30
8	138	Cardiac arrythmia and conduction disorders [1]	.9200	5.7	27
9	088	Chronic obstructive pulmonary disease	1.0304	7.5	30
10	296	Nutritional and miscellaneous metabolic disorders [1]	.8886	7.3	29
11	015	Transient ischemic attacks	.6604	5.6	24
12	096	Bronchitis and asthma [1]	.7913	6.9	24
13	336	Transurethral prostatectomy [1]	.9974	8.4	22
14	209	Major joint procedures	2.2674	17.1	39
15	122	Circulatory disorders with acute myocardial infarction, without cardiovascular complications, discharged alive.	1.3509	9.8	32
16	174	Gastrointestinal hemorrhage [1]	.9185	6.7	29
17	320	Kidney and urinary tract infections [1]	.8039	7.0	29
18	294	Diabetes, age over 35	.8003	7.7	30
19	468	Unrelated operating room procedure	2.0818	11.2	33
20	210	Hip and femur procedures except major joint [1]	2.0617	17.8	40
21	121	Circulatory disorders with acute myocardial infarction and cardiovascular complications, discharged alive.	1.8454	11.9	34
22	082	Respiratory neoplasms	1.1282	7.4	29
23	148	Major small and large bowel procedures [1]	2.5228	17.0	39
24	132	Atheroschlerosis [1]	.9087	6.7	29
25	087	Pulmonary edema and respiratory failure	1.5368	7.7	30

[1] Age over 69 and/or complicating conditions.

Source: 49 F.R. 34780–34790, Aug. 31, 1984. Fiscal year 1984 Rank from Case Mix Monitoring Tables using PATBILL records processed through November 30, 1984.

Source and calculation of the hospital wage index

The hospital wage index is used to adjust a hospital's DRG payment for the wage level of the hospital's area. This is accomplished by multiplying the published labor-related components of the Federal portion of the payment rates by a wage index. The wage index is intended to measure the average wage level for hospital workers in each urban area (metropolitan statistical area or MSA) or rural area (non-MSA parts of States) relative to the national average wage level. The index is based on compensation and employment data for hospital workers as reported to the Bureau of Labor Statistics in the U.S. Department of Labor by county.

The calculation of the index begins with the area average hospital wage and salary amount. For each MSA or non-MSA (all non-MSA counties in a State) area, county total compensation and total employment data are summed separately over all constituent counties in the area (e.g., all counties included in a particular MSA). Then aggregate hospital compensation for the area is divided by aggregate hospital employment in the area to produce the area average wage and salary amount. The hospital wage index is calculated by dividing the average wage and salary amount for each area by the national average wage and salary amount (determined by summing the area amounts over all areas and dividing the sum by the number of areas).

This procedure results in an index number, such as .9503 (Asheville, NC) or 1.2061 (Sacramento, CA) for each MSA or non-MSA area in the United States. Since the national average wage level is represented by an index value of 1.000, the wage index value for any area has a direct and simple interpretation. The value of 1.2061 for Sacramento means that average wage and salary compensation per employee is 20.61 percent higher in the Sacramento MSA than the national average compensation per employee. Thus, in computing the Federal portion of the hospital payment rates applicable for hospitals in the Sacramento MSA, the labor-related components of the urban adjusted standardized payment amounts (national: $2,320.61 and region 9: $2,325.13) would be multiplied by 1.2061 in order to adjust for the higher level (20.61 percent) of employee compensation in this area. Similarly, the calculation of the Federal portion of the rates for hospitals in an area such as Asheville would involve a reduction in the published labor-related components of the national and regional (region 3) adjusted standardized payment amounts, to reflect the fact that average wage levels in this MSA are 4.97 percent lower than the national average (as indicated by the wage index value of .9503).

The Deficit Reduction Act of 1984 required the Department to conduct a study to develop an appropriate wage index, taking into account wage differences of full-time and part-time employees. The Department has surveyed the hospitals subject to PPS to obtain wage and employment data which will be used to develop an improved wage index. According to the requirements of the Deficit Reduction Act of 1984, the Department has indicated that the revised wage index will be retroactive to October 1, 1983.

TABLE 5.—WAGE INDEX FOR URBAN AREAS

Urban area (constituent counties or county equivalents)	Wage index
Abilene, TX (Taylor, TX)	.9395
Akron, OH (Portage, OH, Summit, OH)	1.0713
Albany, GA (Dougherty, GA, Lee, GA)	.8897
Albany-Schenectady-Troy, NY (Albany, NY, Greene, NY, Montgomery, NY, Rensselaer, NY, Saratoga, NY, Schenectady, NY)	.8907
Albuquerque, NM (Bernalillo, NM)	1.0556
Alexandria, LA (Rapides, LA)	.9716
Allentown-Bethlehem, PA-NJ (Warren, NJ, Carbon, PA, Lehigh, PA, Northampton, PA)	1.0498
Alton-Granite City, IL (Jersey, IL, Madison, IL)	.9699
Altoona, PA (Blair, PA)	1.0228
Amarillo, TX (Potter, TX, Randall, TX)	.9677
Anaheim-Santa Ana, CA (Orange, CA)	1.2419
Anchorage, AK (Anchorage, AK)	1.5417
Anderson, IN (Madison, IN)	1.0142
Anderson, SC (Anderson, SC)	.8729
Ann Arbor, MI (Washtenaw, MI)	1.2065
Anniston, AL (Calhoun, AL)	.8608
Appleton-Oshkosh-Neenah, WI (Calumet, WI, Outagamie, WI, Winnebago, WI)	.9644
Asheville, NC (Buncombe, NC)	.9503
Athens, GA (Clarke, GA, Jackson, GA, Madison, GA, Oconee, GA)	.9000
Atlanta, GA (Barrow, GA, Butts, GA, Cherokee, GA, Clayton, GA, Cobb, GA, Coweta, GA, De Kalb, GA, Douglas, GA, Fayette, GA, Forsyth, GA, Fulton, GA, Gwinnett, GA, Henry, GA, Newton, GA, Paulding, GA, Rockdale, GA, Spalding, GA, Walton, GA)	.9395
Atlantic City, NJ (Atlantic, NJ, Cape May, NJ)	1.0627
Augusta, GA-SC (Columbia, GA, McDuffie, GA, Richmond, GA, Aiken, SC)	.9595
Aurora-Elgin, IL (Kane, IL, Kendall, IL)	.9937
Austin, TX (Hays, TX, Travis, TX, Williamson, TX)	1.0631
Bakersfield, CA (Kern, CA)	1.2246
Baltimore, MD (Anne Arundel, MD, Baltimore, MD, Baltimore City, MD, Carroll, MD, Harford, MD, Howard, MD, Queen Annes, MD)	1.0920
Bangor, ME (Penobscot, ME)	.9253
Baton Rouge, LA (Ascension, LA, East Baton Rouge, LA, Livingston, LA, West Baton Rouge, LA)	1.0154
Battle Creek, MI (Calhoun, MI)	1.0578
Beaumont-Port Arthur, TX (Hardin, TX, Jefferson, TX, Orange, TX)	.9854
Beaver County, PA (Beaver, PA)	1.0841
Bellingham, WA (Whatcom, WA)	1.0522
Benton Harbor, MI (Berrien, MI)	.8716
Bergen-Passaic, NJ (Bergen, NJ, Passaic, NJ)	1.0269
Billings, MT (Yellowstone, MT)	.9628
Biloxi-Gulfport, MS (Hancock, MS, Harrison, MS)	.8692
Binghamton, NY (Broome, NY, Tioga, NY)	.9507
Birmingham, AL (Blount, AL, Jefferson, AL, Saint Clair, AL, Shelby, AL, Walker, AL)	1.0026
Bismarck, ND (Burleigh, ND, Morton, ND)	1.0080
Bloomington, IN (Monroe, IN)	.9269
Bloomington-Normal, IL (McLean, IL)	1.0096
Boise City, ID (Ada, ID)	1.0733
Boston-Lawrence-Salem-Lowell-Brockton, MA (Essex, MA, Middlesex, MA, Norfolk, MA, Plymouth, MA, Suffolk, MA)	1.0927
Boulder-Longmont, CO (Boulder, CO)	.9952
Bradenton, FL (Manatee, FL)	.9180
Brazoria, TX (Brazoria, TX)	.8392
Bremerton, WA (Kitsap, WA)	.8972
Bridgeport-Stamford-Norwalk-Danbury, CT (Fairfield, CT)	1.1548
Brownsville-Harlingen, TX (Cameron, TX)	.9195
Bryan-College Station, TX (Brazos, TX)	.9059
Buffalo, NY (Erie, NY)	.9768
Burlington, NC (Alamance, NC)	.8463
Burlington, VT (Chittenden, VT, Grand Isle, VT)	.9632
Canton, OH (Carroll, OH, Stark, OH)	.9778
Casper, WY (Natrona, WY)	1.0235
Cedar Rapids, IA (Linn, IA)	.9360
Champaign-Urbana Rantoul, IL (Champaign, IL)	1.0224
Charleston, SC (Berkeley, SC, Charleston, SC, Dorchester, SC)	1.0241
Charleston, WV (Kanawha, WV, Putnam, WV)	1.1011
Charlotte-Gastonia-Rock Hill, NC-SC (Cabarrus, NC, Gaston, NC, Lincoln, NC, Mecklenburg, NC, Rowan, NC, Union, NC, York, SC)	.9756
Charlottesville, VA (Albemarle, VA, Charlottesville City, VA, Fluvanna, VA, Greene, VA)	1.2899
Chattanooga, TN-GA (Catoosa, GA, Dade, GA, Walker, GA, Hamilton, TN, Marion, TN, Sequatchie, TN)	.9680
Chicago, IL (Cook, IL, Du Page, IL, McHenry, IL)	1.2240
Chico, CA (Butte, CA)	1.0536
Cincinnati, OH-KY-IN (Dearborn, IN, Boone, KY, Campbell, KY, Kenton, KY, Clermont, OH, Hamilton, OH, Warren, OH)	1.0543
Clarksville-Hopkinsville, TN-KY (Christian, KY, Montgomery, TN)	.8325
Cleveland, OH (Cuyahoga, OH, Geauga, OH, Lake, OH, Medina, OH)	1.2004
Colorado Springs, CO (El Paso, CO)	1.1046
Columbia, MO (Boone, MO)	1.1334
Columbia, SC (Lexington, SC, Richland, SC)	.9583
Columbus, GA-AL (Russell, AL, Chattahoochee, GA, Muscogee, GA)	.9180
Columbus, OH (Delaware, OH, Fairfield, OH, Franklin, OH, Licking, OH, Madison, OH, Pickaway, OH, Union, OH)	1.0402
Corpus Christi, TX (Nueces, TX, San Patricio, TX)	.9628
Cumberland, MD-WV (Allegany, MD, Mineral, WV)	.8897
Dallas, TX (Collins, TX, Dallas, TX, Denton, TX, Ellis, TX, Kaufman, TX, Rockwall, TX)	1.0768
Danville, VA (Danville City, VA, Pittsylvania, VA)	.8682
Davenport-Rock Island-Moline, IA-IL (Scott, IA, Henry, IL, Rock Island, IL)	.9818
Dayton-Springfield, OH (Clark, OH, Greene, OH, Miami, OH, Montgomery, OH)	1.1095
Daytona Beach, FL (Volusia, FL)	.9673
Decatur, IL (Macon, IL)	.9811
Denver, CO (Adams, CO, Arapahoe, CO, Denver, CO, Douglas, CO, Jefferson, CO)	1.2076
Des Moines, IA (Dallas, IA, Polk, IA, Warren, IA)	1.0687
Detroit, MI (Lapeer, MI, Livingston, MI, Macomb, MI, Monroe, MI, Oakland, MI, Saint Clair, MI, Wayne, MI)	1.1945
Dothan, AL (Dale AL, Houston, AL)	.8630
Dubuque, IA (Dubuque, IA)	1.0260
Duluth, MN-WI (St. Louis, MN, Douglas, WI)	.9148
East St. Louis-Belleville, IL (Clinton, IL, St. Clair, IL)	.9489
Eau Claire, WI (Chippewa, WI, Eau Claire, WI)	.9549
El Paso, TX (El Paso, TX)	.8973
Elkhart-Goshen, IN (Elkhart, IN)	.8907
Elmira, NY (Chemung, NY)	1.0236
Enid, OK (Garfield, OK)	.9000
Erie, PA (Erie, PA)	.9906
Eugene-Springfield, OR (Lane, OR)	.9862
Evansville, IN-KY (Posey, IN, Vanderburgh, IN, Warrick, IN, Henderson, KY)	1.0247
Fargo-Moorhead, ND-MN (Clay, MN, Cass, ND)	1.0031
Fayetteville, NC (Cumberland, NC)	.9311
Fayetteville-Springdale, AR (Washington, AR)	.8290
Flint, MI (Genesee, MI)	1.1500
Florence, AL (Colbert, AL, Lauderdale, AL)	.8072
Florence, SC (Florence, SC)	.8055

TABLE 5.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Fort Collins-Loveland, CO (Larimor, CO)	.9259
Fort Lauderdale-Hollywood-Pompano Beach, FL (Broward, FL)	1.1082
Fort Myers-Cape Coral, FL (Lee, FL)	.9223
Fort Pierce, FL (Martin, FL, St. Lucie, FL)	.8923
Fort Smith, AR-OK (Crawford, AR, Sebastian, AR, Sequoyah, OK)	.9665
Fort Walton Beach, FL (Okaloosa, FL)	.7857
Fort Wayne, IN (Allen, IN, De Kalb, IN, Whitley, IN)	.9348
Fort Worth-Arlington, TX (Johnson, TX, Parker, TX, Tarrant, TX)	.9826
Fresno, CA (Fresno, CA)	1.1327
Gadsden, AL (Etowah, AL)	.9216
Gainesville, FL (Alachua, FL, Bradford, FL)	.9690
Galveston-Texas City, TX (Galveston, TX)	1.1796
Gary-Hammond, IN (Lake, IN, Porter, IN)	1.1235
Glenns Falls, NY (Warren, NY, Washington, NY)	.8795
Grand Forks, ND (Grand Forks, ND)	.9873
Grand Rapids, MI (Kent, MI, Ottawa, MI)	.9963
Great Falls, MT (Cascade, MT)	1.0286
Greeley, CO (Weld, CO)	1.0807
Green Bay, WI (Brown, WI)	.9783
Greensboro-Winston-Salem-High Point, NC (Davidson, NC, Davie, NC, Forsyth, NC, Guilford, NC, Randolph, NC, Stokes, NC, Yadkin, NC)	.9558
Greenville-Spartanburg, SC (Greenville, SC, Pickens, SC, Spartanburg, SC)	.9455
Hagerstown, MD (Washington, MD)	.9635
Hamilton-Middletown, OH (Butler, OH)	1.0414
Harrisburg-Lebanon-Carlisle, PA (Cumberland, PA, Dauphin, PA, Lebanon, PA, Perry, PA)	1.0335
Hartford-New Middletown-Britain-Bristol, CT (Hartford, CT, Litchfield, CT, Middlesex, CT, Tolland, CT)	1.0670
Hickory, NC (Alexander, NC, Burke, NC, Catawba, NC)	.9484
Honolulu, HI (Honolulu, HI)	1.1448
Houma-Thibodaux, LA (Lafourche, LA, Terrebonne, LA)	.9766
Houston, TX (Fort Bend, TX, Harris, TX, Liberty, TX, Montgomery, TX, Waller, TX)	1.1097
Huntington-Ashland, WV-KY-OH (Boyd, KY, Carter, KY, Greenup, KY, Lawrence, OH, Cabell, WV, Wayne, WV)	.9830
Huntsville, AL (Madison, AL)	.8972
Indianapolis, IN (Boone, IN, Hamilton, IN, Hancock, IN, Hendricks, IN, Johnson, IN, Marion, IN, Morgan, IN, Shelby, IN)	1.0786
Iowa City, IA (Johnson, IA)	1.1400
Jackson, MI (Jackson, MI)	1.0260
Jackson, MS (Hinds, MS, Madison, MS, Rankin, MS)	.9092
Jacksonville, FL (Clay, FL, Duval, FL, Nassau, FL, St. Johns, FL)	.9894
Jacksonville, NC (Onslow, NC)	.8800
Janesville-Beloit, WI (Rock, WI)	.9022
Jersey City, NJ (Hudson, NJ)	1.0890
Johnson City-Kingsport-Bristol, TN-VA (Carter, TN, Hawkins, TN, Sullivan, TN, Unicol, TN, Washington, TN, Bristol City, VA, Scott, VA, Washington, VA)	.9221
Johnstown, PA (Cambria, PA, Somerset, PA)	1.0263
Joliet, IL (Grundy, IL, Will, IL)	1.1024
Joplin, MO (Jasper, MO, Newton, MO)	.9560
Kalamazoo, MI (Kalamazoo, MI)	1.2244
Kankakee, IL (Kankakee, IL)	.9125
Kansas City, KS-MO (Johnson, KS, Leavenworth, KS, Miami, KS, Wyandotte, KS, Cass, MO, Clay, MO, Jackson, MO, Lafayette, MO, Platte, MO, Ray, MO)	.9861
Kenosha, WI (Kenosha, WI)	1.0786
Killeen-Temple, TX (Bell, TX, Coryell, TX)	.9383
Knoxville, TN (Anderson, TN, Blount, TN, Grainger, TN, Jefferson, TN, Knox, TN, Sevier, TN, Union, TN)	.9146
Kokomo, IN (Howard, IN, Tipton, IN)	1.0096
LaCrosse, WI (LaCrosse, WI)	.9543
Lafayette, LA (Lafayette, LA, St. Martin, LA)	1.0141
Lafayette, IN (Tippecanoe, IN)	.9240
Lake Charles, LA (Calcasieu, LA)	.9921
Lake County, IL (Lake, IL)	1.1061
Lakeland-Winter Haven, FL (Polk, FL)	.9257
Lancaster, PA (Lancaster, PA)	1.0351
Lansing-East Lansing, MI (Clinton, MI, Eaton, MI, Ingham, MI)	1.0493
Laredo, TX (Webb, TX)	.8544
Las Cruces, NM (Dona Ana, NM)	.8438
Las Vegas, NV (Clark, NV)	1.2165
Lawrence, KS (Douglas, KS)	.9778
Lawton, OK (Comanche, OK)	.9257
Lewiston-Auburn, ME (Androscoggin, ME)	.9149
Lexington-Fayette, KY (Bourbon, KY, Clark, KY, Fayette, KY, Jessamine, KY, Scott, KY, Woodford, KY)	.9555
Lima, OH (Allen, OH, Auglaize, OH)	.9967
Lincoln, NE (Lancaster, NE)	.8998
Little Rock-North Little Rock, AR (Faulkner, AR, Lonoke, AR, Pulaski, AR, Saline, AR)	1.0162
Longview-Marshall, TX (Gregg, TX, Harrison, TX)	.8544
Lorain-Elyria, OH (Lorain, OH)	1.0528
Los Angeles-Long Beach, CA (Los Angeles, CA)	1.3010
Louisville, KY-IN (Clark, IN, Floyd, IN, Harrison, IN, Bullitt, KY, Jefferson, KY, Oldham, KY, Shelby, KY)	1.0832
Lubbock, TX (Lubbock, TX)	1.0067
Lynchburg, VA (Amherst, VA, Campbell, VA, Lynchburg City, VA)	.9221
Macon-Warner Robins, GA (Bibb, GA, Houston, GA, Jones, GA, Peach, GA)	.9830
Madison, WI (Dane, WI)	1.0621
Manchester-Nashua, NH (Hillsboro, NH, Merrimack, NH)	.9327
Mansfield, OH (Richland, OH)	.9158
McAllen-Edinburg-Mission, TX (Hidalgo, TX)	.8438
Medford, OR (Jackson, OR)	.9833
Melbourne-Titusville, FL (Brevard, FL)	.9314
Memphis, TN-AR-MS (Crittenden, AR, De Soto, MS, Shelby, TN, Tipton, TN)	1.0744
Miami-Hialeah, FL (Dade, FL)	1.1468
Middlesex-Somerset-Hunterdon, NJ (Hunterdon, NJ, Middlesex, NJ, Somerset, NJ)	1.0611
Midland, TX (Midland, TX)	1.0761
Milwaukee, WI (Milwaukee, WI, Ozaukee, WI, Washington, WI, Waukesha, WI)	1.0419
Minneapolis-St. Paul, MN-WI (Anoka, MN, Carver, MN, Chisago, MN, Dakota, MN, Hennepin, MN, Isanti, MN, Ramsey, MN, Scott, MN, Washington, MN, Wright, MN, St. Croix, WI)	1.0250
Mobile, AL (Baldwin, AL, Mobile, AL)	.9311
Modesto, CA (Stanislaus, CA)	1.0773
Monmouth-Ocean, NJ (Monmouth, NJ, Ocean, NJ)	.9843
Monroe, LA (Ouachita, LA)	.9531
Montgomery, AL (Autauga, AL, Elmore, AL, Montgomery, AL)	.9706
Muncie, IN (Delaware, IN)	.9673
Muskegon, MI (Muskegon, MI)	.9216
Naples, FL (Collier, FL)	1.1170
Nashville, TN (Cheatham, TN, Davidson, TN, Dickson, TN, Robertson, TN, Rutherford, TN, Sumner, TN, Williamson, TN, Wilson, TN)	1.2232
Nassau-Suffolk, NY (Nassau, NY, Suffolk, NY)	1.2068
New Bedford-Fall River-Attleboro, MA (Bristol, MA)	.9643
New Haven-West Haven-Waterbury-Meriden, CT (New Haven, CT)	1.0645
New London-Norwich, CT (New London, CT)	1.0646
New Orleans, LA (Jefferson, LA, Orleans, LA, St. Bernard, LA, St. Charles, LA, St. John The Baptist, LA, St. Tammany, LA)	1.0115
New York, NY (Bronx, NY, Kings, NY, New York City, NY, Putnam, NY, Queens, NY, Richmond, NY, Rockland, NY, Westchester, NY)	1.3629

TABLE 5.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Newark, NJ (Essex, NJ, Morris, NJ, Sussex, NJ, Union, NJ)	1.1265
Niagara Falls, NY (Niagara, NY)	.8723
Norfolk-Virginia Beacn-Newport News, VA (Chesapeake City, VA, Gloucester, VA, Hampton City, VA, James City Co., VA, Newport News City, VA, Norfolk City, VA, Poquoson, VA, Portsmouth City, VA, Suffolk City, VA, Virginia Beach City, VA, Williamsburg City, VA, York, VA)	.9763
Oakland, CA (Alameda, CA, Contra Costa, CA)	1.2590
Ocala, FL (Marion, FL)	1.0060
Odessa, TX (Ector, TX)	.9756
Oklahoma City, OK (Canadian, OK, Cleveland, OK, Logan, OK, McClain, OK, Oklahoma, OK, Pottawatomie, OK)	1.0502
Olympia, WA (Thurston, WA)	1.0543
Omaha, NE-IA (Pottawattamie, IA, Douglas, NE, Sarpy, NE, Washington, NE)	.8982
Orange County, NY (Orange, NY)	1.0041
Orlando, FL (Orange, FL, Osceola, FL, Seminole, FL	1.0125
Owensboro, KY (Daviess, KY)	.8809
Oxnard-Ventura, CA (Ventura, CA)	1.1962
Panama City, FL (Bay, FL)	.9022
Parkersburg-Marietta, WV-OH (Washingtron, OH, Wood, WV)	.9933
Pascagoula, MS (Jackson, MS)	1.0118
Pensacola, FL (Escambia, FL, Santa Rosa, FL)	.9092
Peoria, IL (Peoria, IL, Tazewell, IL, Woodford, IL)	1.1269
Philadelphia, PA-NJ (Burlington, NJ, Camden, NJ, Gloucester, NJ, Bucks, PA, Chester, PA, Delaware, PA, Montgomery, PA, Philadelphia, PA)	1.1736
Phoenix, AZ (Maricopa, AZ)	1.1099
Pine Bluff, AR (Jefferson, AR)	.8757
Pittsburgh, PA (Allegheny, PA, Fayette, PA, Washington, PA, Westmoreland, PA)	1.1364
Pittsfield, MA (Berkshire, MA)	.9795
Portland, ME (Cumberland, ME, Sagadahoc, ME, York, ME)	.9632
Portland, OR (Clackamas, OR, Multnomah, OR, Washington, OR, Yamhill, OR)	1.1172
Portsmouth-Dover-Rochester, NH (Rockingham, NH, Strafford, NH)	.8438
Poughkeepsie, NY (Dutchess, NY)	1.0897
Providence-Pawtucket-Woonsocket, RI (Bristol, RI, Kent, RI, Newport, RI, Providence, RI, Statewide, RI, Washington, RI)	.9753
Provo-Orem, UT (Utah, UT)	.9452
Pueblo, CO (Pueblo, CO)	1.1576
Racine, WI (Racine, WI)	1.0124
Raleigh-Durham, NC (Durham, NC, Franklin, NC, Orange, NC, Wake, NC)	1.0118
Reading, PA (Berks, PA)	1.0265
Redding, CA (Shasta, CA)	1.0522
Reno, NV (Washoe, NV)	1.2962
Richland-Kennewick, WA (Benton, WA, Franklin, WA)	.9528
Richmond-Petersburg, VA (Charles City Co., VA, Chesterfield, VA, Colonial Heights City, VA, Dinwiddie, VA, Goochland, VA, Hanover, VA, Henrico, VA, Hopewell City, VA, New Kent, VA, Petersburg City, VA, Powhatan, VA, Prince George, VA, Richmond City, VA)	.9281
Riverside-San Bernardino, CA (Riverside, CA, San Bernardino, CA)	1.1729
Roanoke, VA (Botetourt, VA, Roanoke, VA, Roanoke City, VA, Salem City, VA)	.9998
Rochester, MN (Olmsted, MN)	1.0235
Rochester, NY (Livingston, NY, Monroe, NY, Ontario, NY, Orleans, NY, Wayne, NY)	1.0357
Rockford, IL (Boone, IL, Winnebago, IL)	1.0323
Sacramento, CA (Eldorado, CA, Placer, CA, Sacramento, CA, Yolo, CA)	1.2061
Saginaw-Bay City-Midland, MI (Bay, MI, Midland, MI, Saginaw, MI)	1.0928
St. Cloud, MN (Benton, MN, Sherburne, MN, Stearns, MN)	.8786
St. Joseph, MO (Buchanan, MO)	.9856
St. Louis, MO-IL (Monroe, IL, Franklin, MO, Jefferson, MO, St. Charles, MO, St. Louis, MO, St. Louis City, MO)	1.0694
Salem, OR (Marion, OR, Polk, OR)	1.0559
Salinas-Seaside-Monterey, CA (Monterey, CA)	1.2737
Salt Lake City-Ogden, UT (Davis, UT, Salt Lake, UT, Weber, UT)	.9649
San Angelo, TX (Tom Green, TX)	.9269
San Antonio, TX (Bexar, TX, Comal, TX, Guadalupe, TX)	1.0488
San Diego, CA (San Diego, CA)	1.1873
San Francisco, CA (Marin, CA, San Francisco, CA, San Mateo, CA)	1.3946
San Jose, CA (Santa Clara, CA)	1.2928
Santa Barbara-Santa Maria-Lompoc, CA (Santa Barbara, CA)	1.1094
Santa Cruz, CA (Santa Cruz, CA)	1.1363
Santa Fe, NW (Los Alamos, NM, Santa Fe, NM)	1.0089
Santa Rosa-Petaluma, CA (Sonoma, CA)	1.1808
Sarasota, FL (Sarasota, FL)	.9859
Savannah, GA (Chatham, GA, Effingham, GA)	.9501
Scranton/Wilkes Barre, PA (Columbia, PA, Lackawanna, PA, Luzerne, PA, Monroe, PA, Wyoming, PA)	.9742
Seattle, WA (King, WA, Snohomish, WA)	1.0859
Sharon, PA (Mercer, PA)	.9640
Sheboygan, WI (Sheboygan, WI)	.8574
Sherman-Denison, TX (Grayson, TX)	.8997
Shreveport, LA (Bossier, LA, Caddo, LA)	1.0634
Sioux City, IA-NE (Woodbury, IA, Dakota, NE)	1.0301
Sioux Falls, SD (Minnehaha, SD)	.9428
South Bend-Mishawaka, IN (St. Joseph, IN)	.9715
Spokane, WA (Spokane, WA)	1.1170
Springfield, IL (Menard, IL, Sangamon, IL)	1.1394
Springfield, MO (Christian, MO, Greene, MO)	.9518
Springfield, MA (Hampden, MA, Hampshire, MA)	.9855
State College, PA (Centre, PA)	1.0543
Steubenville-Weirton, OH-WV (Jefferson, OH, Brooke, WV, Hancock, WV)	.9743
Stockton, CA (San Joaquin, CA)	1.1624
Syracuse, NY (Madison, NY, Onondaga, NY, Oswego, NY)	1.4527
Tocoma, WA (Pierce, WA)	1.0424
Tallahassee, FL (Gadsden, FL, Leon, FL)	.9251
Tampa-St. Petersburg-Clearwater, FL (Hernando, FL, Hillsborough, FL, Pasco, FL, Pinellas, FL)	.9963
Terre Haute, IN (Clay, IN, Vigo, IN)	.8809
Texarkana-TX-Texarkana, AR (Miller, AR, Bowie, TX)	1.1081
Toledo, OH (Fulton, OH, Lucas, OH, Wood, OH)	1.1307
Topeka, KS (Shawnee, KS)	1.1108
Trenton, NJ (Mercer, NJ)	1.0365
Tucson, AZ (Pima, AZ)	1.0141
Tulsa, OK (Creeks, OK, Osage, OK, Rogers, OK, Tulsa, OK, Wagoner, OK)	1.0386
Tuscaloosa, AL (Tuscaloosa, AL)	1.0168
Tyler, TX (Smith, TX)	1.0008
Utica-Rome, NY (Herkimer, NY, Oneida, NY)	.9332
Vallejo-Fairfield-Napa, CA (Napa, CA, Solano, CA)	1.3266
Vancouver, WA (Clark, WA)	1.0807
Victoria, TX (Victoria, TX)	.8616
Vineland-Millville-Bridgeton, NJ (Cumberland, NJ)	.9479
Visalia-Tulare-Porterville, CA (Tulare, CA)	1.1331
Waco, TX (McLennan, TX)	.8313
Washington, D.C.-MD-VA (District of Columbia, DC, Calvert, MD, Charles, MD, Frederick, MD, Montgomery, MD, Prince Georges, MD, Alexandria City, VA, Arlington, VA, Fairfax, VA, Fairfax City, VA, Falls Church City, VA, Loudoun, VA, Manassas City, VA, Manassas Park City, VA, Prince William, VA, Stafford, VA)	1.1577

TABLE 5.—WAGE INDEX FOR INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Waterloo-Cedar Falls, IA (Black Hawk, IA, Bremer, IA)	.9081
Wausau, WI (Marathon, WI)	.9428
West Palm Beach-Boca Raton-Delray Beach, FL (Palm Beach, FL)	.9990
Wheeling, WV-OH (Belmont, OH, Marshall, WV, Ohio, WV)	.9811
Wichita, KS (Butler, KS, Sedgwick, KS)	1.1191
Wichita Falls, TX (Wichita, TX)	.8701
Williamsport, PA (Lycoming, PA)	1.0242
Wilmington, DE-NJ-MD (New Castle, DE, Cecil, MD, Salem, NJ)	1.0871
Wilmington, NC (New Hanover, NC)	.8996
Worcester-Fitchburg-Leominister, MA (Worcester, MA)	.9750
Yakima, WA (Yakima, WA)	1.0018
York, PA (Adams, PA, York, PA)	1.0286
Youngstown-Warren, OH (Mahoning, OH, Trumbull, OH)	1.1017
Yuba City, CA (Sutter, CA, Yuba, CA)	1.0807

WAGE INDEX FOR RURAL AREAS

Non-urban area	Wage index
Alabama	.7775
Alaska	1.4383
Arizona	.8931
Arkansas	.7794
California	1.0100
Colorado	.8317
Connecticut	.9953
Delaware	.8997
Florida	.8682
Georgia	.8481
Hawaii	1.1747
Idaho	.8984
Illinois	.8708
Indiana	.8706
Iowa	.8156
Kansas	.8118
Kentucky	.8146
Louisiana	.8322
Maine	.8648
Maryland	.9370
Massachusetts	.9690
Michigan	.9471
Minnesota	.8572
Mississippi	.8004
Missouri	.8260
Montana	.8694
Nebraska	.7411
Nevada	1.0157
New Hampshire	1.0297
New Jersey [1]	
New Mexico	.9149
New York	.8698
North Carolina	.8487
North Dakota	.8309
Ohio	.9126
Oklahoma	.8582
Oregon	.9543
Pennsylvania	1.0306
Rhode Island [1]	
South Carolina	.8071
South Dakota	.7857
Tennessee	.7860
Texas	.8104
Utah	.8211
Vermont	.8757
Virginia	.8502
Washington	.9477
West Virginia	.9163
Wisconsin	.8454
Wyoming	.9546

[1] All counties within the State are classified urban.

Special treatment of certain facilities

The law provides for certain exceptions and adjustments to the prospective payment rates as follows:

Sole community hospitals

The Secretary is required to apply a special formula for sole community hospitals (SCH's), which are hospitals that (by reason of factors such as isolated locations, weather conditions, travel conditions, or absence of other hospitals) are the sole source of inpatient services reasonably available in a geographic area. SCH's are paid indefinitely on the same basis as all other hospitals are paid in the first year of the transition period: 25 percent of the payment is based on regional DRG rates and 75 percent on each hospital's cost base. During the transition period, SCH's may also receive an additional payment amount if, due to circumstances beyond their control, they experience a decrease of more than 5 percent in their number of inpatient cases. As of January 1985, 308 hospitals had been classified as sole community providers.

Cancer hospitals

The Secretary is authorized to provide for exceptions and adjustments to the prospective payment amounts appropriate for hospitals involved extensively in treatment for and research on cancer. The regulations define a cancer hospital as one which: (1) was recognized by the National Cancer Institute as a comprehensive cancer center or a clinical cancer research center as of April 20, 1983, (2) demonstrates that the entire facility is organized primarily for treatment of and research on cancer, and (3) has a patient population such that at least 50 percent of the hospital's total discharges have a principal diagnosis that reflects a finding of neoplastic disease. Cancer hospitals meeting these criteria will be paid on a reasonable cost basis. As of January 1985, four hospitals had been designated as cancer hospitals.

Regional and national referral centers

The Secretary is authorized to provide authorized exceptions and adjustments appropriate for regional and national referral centers (including those with 500 or more beds located in rural areas). The regulations define such hospitals as: (1) those located in rural areas having 500 or more beds; (2) those having at least 50 percent of their Medicare patients referred from other hospitals or physicians not on the hospital's staff; these hospitals must also have at least 60 percent of the Medicare patients residing more than 25 miles from the hospital and at least 60 percent of the services furnished to Medicare beneficiaries who live 25 miles or more from the hospital; or (3) for hospital discharges occurring on or after October 1, 1984, rural hospitals meeting the following criteria: (a) a case index threshold (for example, at least 1.03 in 1981) and (b) a minimum number of discharges (for example, 6,000 for the hospital's cost reporting period ending in 1981). In addition to criteria (3) (a) and (b), hospitals must meet at least one of the following three criteria: (c) more than 50 percent of the hospital's medical staff are specialists; (d) at least 60 percent of discharges are for inpatients who reside more than 25 miles from the hospital; or (e) at least 40 percent of inpatients treated at the hospital have been referred either from physicians not on the hospital's staff or from other hospitals. Hospitals meeting criterion (1) will be paid prospective payments based on the applicable urban payment rates rather than the rural rates, as adjusted by the hospital's area wage index. Beginning with cost reporting periods after October 1, 1984, rural hospitals meeting criterion (2) and hospitals meeting criterion (3) will also be paid prospective payments based on the applicable urban payment rates, as adjusted by the hospital's wage index. As of January 1985, there were 46 regional referral centers.

Public or other hospitals with many low-income patients or medicare beneficiaries

The Secretary is authorized to provide for exceptions and adjustments to the prospective payment rates to take into account the needs of hospitals that serve a significantly disproportionate number of low-income patients or Medicare beneficiaries. Currently, HCFA has not provided for such an adjustment. The law requires the Secretary, prior to December 31, 1984, to define and identify such hospitals.

Hospitals excluded from the prospective payment system

The following hospitals are by law excluded from the prospective payment system and will be paid on the basis of reasonable costs, subject to the TEFRA rate of increase limits: psychiatric hospitals, rehabilitation hospitals, psychiatric or rehabilitation units which are distinct parts of a hospital, children's hospitals (with patients averaging under 18 years of age), long-term hospitals (with an average inpatient length of stay greater than 25 days), and hospitals outside the 50 States and the District of Columbia. By regulation, alcohol/drug treatment hospitals and units meeting specified criteria are excluded until October 1, 1985.

Hospitals reimbursed under approved State cost control systems are also excluded from the prospective rates. In addition, the regulations indicate that there are special cases where the prospective payment system is inappropriate and will not be applied, such as for emergency services provided to Medicare beneficiaries in hospitals not participating in Medicare, Veterans' Administration hospital services provided to Medicare beneficiaries, and hospital services provided to Medicare beneficiaries who belong to health maintenance organizations or competitive medical plans (such organizations may choose to have the Secretary pay hospitals directly for such services or may negotiate their own rates with hospitals).

Administrative and judicial review

Administrative and judicial appeals are allowed under procedures and authorities already established under the Medicare program. However, the law precludes administrative and judicial review of: (1) the "budget neutrality" adjustment (see above), and (2) the DRG payment amounts, including the establishment of DRG's, the methodology for classifying discharges within DRG's, and the DRG weighting factors.

Review activities

Public Law 97–248, the Tax Equity and Fiscal Responsibility Act of 1982 (known as TEFRA) replaced the existing Professional Standards Review Organization (PSRO) program with the utilization and quality control peer review program. The Secretary of the Department of Health and Human Services was required to enter into performance-based contracts with physician-sponsored or physician-access organizations known as Peer Review Organizations (PRO's) by November 15, 1984. As a condition of receiving payments under the new prospective payment system, hospitals are required to enter an agreement with a PRO under which the PRO will review the validity of diagnostic information provided by the hospitals; the completeness, adequacy and quality of care provided; the appropriateness of admissions and discharges; and the appropriateness of care provided to patients disignated by hospitals as outliers (i.e., cases which are extraordinarily costly to treat based on cost and length-of-stay criteria).

Nonphysician services furnished to hospital inpatients

Prior to Public Law 98–21, payments for nonphysician services (in such areas as radiology, laboratory, physical therapy, prosthetics) provided to Medicare beneficiaries who were hospital inpatients were made sometimes to the hospital under part A of Medicare on a reasonable cost basis and sometimes to an outside supplier of the service under part B of Medicare on the basis of reasonable charges. The practice of billing under part B for services provided to hospital inpatients has been known as the "unbundling" of part A services. Public Law 98–21 provides that, effective October 1, 1983, for all hospitals participating in the Medicare program (including those under prospective payment, excluded hospitals, and those paid under State cost control systems), all nonphysician services provided to hospital inpatients will be paid only as hospital services under the part A program.

The Secretary has authority to waive this requirement during the transition period to allow billing under part B for hospitals that had such extensive billings under part B prior to October 1, 1982, that compliance with the new requirement would threaten the stability of patient care. The January 3, 1984, regulations provided for an exception to the "unbundling" requirement for the inpatient hospital services of anesthetists, such as certified registered nurse anesthetists (CRNA's). For hospital cost reporting periods beginning before October 1, 1986, if a physician (usually an anesthesiologist) employed CRNA's on the last day of the hospital's most recent cost reporting period ending before September 1, 1983, then the physician could continue to bill the Medicare program for the CRNA's services under part B of Medicare. If the physician chooses to continue such part B billing during the transition period, the hospital may not add the costs of the CRNA's services to its base period costs for purposes of determining the hospital-specific portion of its DRG payment rates. In addition, effective with cost reporting periods beginning October 1, 1984, and before October 1, 1987, the costs of anesthesia services provided by qualified nonphysician anesthetists (CRNA's and anesthesiology assistants) employed by hospitals or obtained under arrangements are removed from prospective payment, to be reimbursed on the basis of reasonable cost.

State cost control systems

Section 1886(c) of the Social Security Act (as added by TEFRA) authorized the HHS Secretary at his/her discretion to reimburse hospitals in a State according to the State's hospital reimbursement control system rather than according to Medicare's reimbursement methods if the State requests this change and if HHS determines that the State system meets certain requirements. Currently four States have waivers to operate their own systems: Maryland, Massachusetts, New Jersey, and New York.

Public Law 98-21 added several more requirements for State systems: provisions related to reimbursement to health maintenance organizations or competitive medical plans, charges to medicare beneficiaries for payment amounts denied by the medicare program because of improper hospital admissions or medical practices, and nonphysician services provided to hospital inpatients from payment under part B of Medicare. The Secretary is prohibited from denying a State waiver because the State's system is based on a payment methodology other than DRG's or from requiring that medicare expenditures under the State's system be less than the expenditures which would have been made under the Federal prospective payment system. The Secretary is required to approve any State system which meets certain requirements in addition to the conditions mentioned above. The Secretary is required to respond within 60 days to waiver requests from States meeting all requirements.

Public Law 98-369, the Deficit Reduction Act of 1984, required proposed regulations implementing section 1886(c) to be published by July 1, 1984, and final regulations by October 1, 1984. Such regulations have not yet been published.

Prospective Payment Assessment Commission

Public Law 98-21 requires the Director of the Congressional Office of Technology Assessment (OTA) to appoint by April 1, 1984, a commission of 15 independent experts, known as the Prospective Payment Assessment Commission. The Commission is required to review the percentage increase used to update the DRG payment rates for fiscal years 1984 and 1985 and make recommendations to the Secretary on the appropriate percentage change for fiscal years beginning with 1986. In addition, the Commission must: (1) consult with and make recommendations to the Secretary on the need for adjustments to the DRG classifications, the methodology for classifying specific hospital discharges within the DRG's, and weighting factors for the DRG's, and (2) report to Congress its evaluation of any adjustments which the Secretary makes.

REIMBURSEMENT FOR CAPITAL-RELATED EXPENSES

Present law provides that capital-related costs (including depreciation, interest, rent and, in the case of proprietary entities, a return on equity) are to be excluded from the prospective payment system until October 1, 1986. Until that time, capital costs continue to be reimbursed on a reasonable cost basis. Public Law 98–21 directs the Secretary of Health and Human Services to conduct a study and, within 18 months after enactment of that law, to report to Congress on methods and proposals under which capital costs, including the return on equity capital, may be included in the prospective payment system. This report, which was due in October 1984, has not yet been submitted.

Public Law 98–21 also provides that, if no legislation is enacted prior to October 1, 1986 regarding inclusion of capital-related costs in the prospective payment system, no payment can be made for capital costs associated with a subsequent capital expenditure unless the State in which the hospital is located has a capital expenditure review agreement with the Secretary (under section 1122 of the Social Security Act) and the State has recommended approval of the expenditure. The conference report on Public Law 98–21 also states that, if the Secretary has implemented a system of prospective payments for capital-related costs (without any further action by Congress) and the mandatory section 1122 approval process goes into effect, the Secretary must make adjustments to the payment rates to reflect capital-related costs not approved under section 1122. Public Law 98–21 expresses the intent of Congress that, when including capital-related costs under the prospective payment system, new capital projects for which expenditures are made on or after the effective date of the implementation of the prospective payment system may be reimbursed differently from projects begun before that date.

Reimbursable capital expenses include:

Depreciation

Depreciation is that amount which represents the portion of an asset's cost or value which is used up during a period of operation. Depreciation accounting is a system of accounting which prorates the cost or other basic value of a tangible capital asset less salvage value (if any) over its estimated useful life.

An appropriate allowance for depreciation on buildings and equipment used to render care covered by medicare is reimbursable as a capital cost. Depreciation is based on the historical, i.e., original, cost of the asset except that special rules apply in the case of assets acquired prior to 1966. The program recognizes depreciation on assets in use at the time the provider enters the program even though such assets have been fully or partially depreciated on the provider's books. A depreciation allowance is also permitted on assets that are used in a normal standby or emergency capacity or for assets financed by public funds.

In general, the useful life of an asset is based on the useful-life guidelines published by the American Hospital Association or the Internal Revenue Service. Generally, options for straight-line depreciation (which provides a uniform allowance each year) and accelerated depreciation (which permits a larger writeoff in the initial years) are permitted for assets acquired before August 1970; only straight line and (within limits) declining balance depreciation (which is one form of accelerated depreciation) are recognized for assets acquired at a later date.

Under law and regulations in effect prior to enactment of the Deficit Reduction Act of 1984 (Public Law 98–369), a hospital which purchased a used asset at a price above its current value on the seller's books (historical cost less accumulated depreciation) was generally permitted to list the asset at the higher value on its own books (called revaluation) and to use the higher value in subsequent calculations of allowable depreciation. Reasonable transaction costs associated with a change of ownership (legal fees, etc.) were also allowable costs reimbursable under Medicare. In sale and lease-back arrangements, rental costs were generally permitted as allowable costs under the program.

Public Law 98–369 provides that reimbursement for capital-related costs after a change of ownership is limited to the lesser of the amount that would be allowable on the purchase price or the allowable cost under Medicare to the original owner. Thus, upward revaluation of assets is no longer permitted in calculating allowable depreciation expenses. Also, transaction costs are no longer allowable costs in a resale of assets. The conference report for Public Law 98–369 also states the conferee's expectation that the Secretary will determine the reasonableness of rental costs associated with depreciable assets that have been sold in order to prevent circumvention of the revaluation restrictions by sale and lease-back arrangements.

Special rules apply with respect to gains or losses resulting from disposal of assets. In particular, when an asset is sold at a price that differs from its depreciated value, Medicare shares in the gain or loss in the same proportion as it shares in total depreciation expense. Medicare's gain (recapture) is limited to the total amount of depreciation previously paid to the seller on the asset sold. Medicare's loss is limited to its share of the asset's current depreciated value.

Medicare does not require the funding of depreciation; that is, the provider is not required to set aside the amount allowed for depreciation for replacement of the asset. However, as an incentive for funding, investment income on funded depreciation is not treated as an offset to allowable interest expense.

Public Law 97–34, the Economic Recovery Tax Act of 1981, made a number of changes in the calculation of depreciation for tax purposes. However, the law excludes Medicare (and other programs administered by HHS) from the new depreciation rules for purposes of determining cost reimbursement under the program.

Interest

Necessary and proper interest on current and capital indebtedness is included as reimbursable capital cost under Medicare. Generally, current indebtedness represents short-term loans for working capital for normal operating expenses. Capital indebtedness represents long-term loans in which the funds are used for acquiring facilities and equipment or making capital improvements.

To be recognized as an allowable cost, interest must be incurred on funds needed to satisfy the financial needs of the hospital and must be for a purpose reasonably related to patient care. Public Law 98–369 provides that, in the case where funds are borrowed for the purchase of used assets (change of ownership), the interest expense allowable to the new owner may not exceed the amount that would be incurred by borrowing funds equal to the depreciated value of the assets on the seller's books (i.e., without revaluation).

The rate of interest may not be in excess of what a prudent borrower would have had to incur in the money market in an arm's-length transaction. The interest must be paid to a lender not related through control, ownership, or personal relationship to the borrowing organization.

Generally, allowable interest expenses are reduced by investment income except where such income is from: (1) gifts, grants, and endowments, whether restricted or unrestricted; (2) funded depreciation; (3) a provider's qualified pension fund; or (4) deferred compensation funds.

Return on equity capital of proprietary hospitals

A reasonable return on equity capital invested and used in providing patient care is an allowable cost for proprietary providers. Equity capital is the net worth of a provider excluding those assets and liabilities not related to patient care. Specifically equity capital includes: (1) a provider's investment in plant, property, and equipment (net of depreciation) related to patient care, plus funds deposited by a provider who leases such items where such deposit is required by the lease; and (2) net working capital maintained for necessary and proper operation of patient care activities.

The base amount of equity capital to be used in computing the allowable return is the average investment of the owners during a reporting period. The rate of return (for cost reporting periods on or after April 20, 1983) is equal to the rate of interest paid by the Federal Treasury on the assets of the Federal Hospital Insurance Trust Fund.

Public Law 98-369 provides that the return on equity capital on assets purchased from a previous owner (change of ownership) is limited to the amount that would be payable if the return were calculated on the depreciated value of the assets on the previous owner's books at the time of the sale.

HIGHLIGHTS OF LEGISLATION AND REGULATIONS AFFECTING THE PROSPECTIVE PAYMENT SYSTEM

Medicare's Prospective Payment System (PPS) for hospitals has evolved through legislation and regulation. The original authorizing legislation (Public Law 98-21, the Social Security Amendments of 1983, April 20, 1983) was first implemented by final rules issued by the Department of Health and Human Services on January 3, 1984 (49 FR 234). The Deficit Reduction Act of 1984 (Public Law 98-369; July 18, 1984) made certain changes to PPS. These changes and other changes including the payment rates for fiscal year 1985 were incorporated into final rules issued by the Department on August 31, 1984 (49 FR 34728). Selected portions of PPS as determined by legislation and regulation are described below.

1. Increases in Medicare payments to hospitals

Public Law 98-21 and 49 FR 234: Provides that the Medicare DRG payment rates for fiscal years 1984 and 1985 would be increased annually by the increase in the hospital market basket plus 1 percentage point, subject to a budget neutrality requirement which provides that Medicare payments in those 2 years must equal what would have been spent if PPS had not been put in place. Provides that the Secretary would determine the rate of increase for fiscal year 1986 and thereafter, taking into account the recommendations of the Prospective Payment Commission.

Public Law 98-369 and 49 FR 34728: Changes the annual increase in the DRG payment rates for fiscal year 1985 to the increase in the market basket plus 0.25 percentage point, subject to budget neutrality. Limits the rate of increase to be determined by the Secretary for fiscal year 1986 to the rate of increase in the market basket plus 0.25 percentage point.

2. Wage index

Public Law 98-21: Provides that the Federal portion of the DRG rates be adjusted by a wage index to reflect the hospital wage level in an individual hospital's geographic area relative to the national average hospital wage level.

49 FR 234: The Department indicated it would use employment data from the Bureau of Labor Statistics (BLS) to develop the wage index. While acknowledging the limitations of the BLS data (including lack of information about part time employment), the Department stated that BLS data are the best presently available for the development of the wage index.

Public Law 98-369: Requires the Secretary, in consultation with the Secretary of Labor, to conduct a study to develop an appropriate wage index, taking into account wage differences of full time and part time employees. The results of the study were to be reported to Congress by August 18, 1984. If any changes are made to the wage index as a result of this study, requires the Secretary to make retroactive adjustments to the payment amounts for hospital cost reporting periods beginning on or after October 1, 1983. Requires the Secretary to study and report to Congress proposed criteria to be used to modify a hospital's wage adjustment if the hospital can demonstrate that the wage index does not accurately reflect wage levels in the labor market serving the hospital.

49 FR 34728: The Department indicated that it surveyed the hospitals subject to PPS to obtain wage and employment data which could be used to develop an improved wage index. However, the data obtained had too many errors to develop a reliable wage index in time for the publication of the August 1984 rules. The Department is planning to use these data, once they are determined to be accurate and reasonably complete, to conduct the mandated study and to construct a revised wage index. The Department indicated that any revised wage index will be retroactive to October 1, 1983, as mandated by law. The Department indicated that it does not intend to address the development of adjustment criteria in the near future.

3. Referral centers

Public Law 98-21: Requires the Secretary to provide for such exceptions and adjustments to the DRG payment amounts as the Secretary deems appropriate to take into account the special needs of regional and national referral centers (including hospitals of 500 or more beds located in rural areas).

49 FR 234: The Department's criteria for a referral center were that the hospital must be located in a rural area and have at least 500 beds; or the hospital must have an inpatient population such that at least 50 percent of its Medicare patients are referred from other hospitals or from physicians not on the staff of the hospital, at least 60 percent of the hospital's Medicare patients reside more than 25 miles from the hospital, and at least 60 percent of all services received by Medicare beneficiaries are provided to beneficiaries residing more than 25 miles from the hospital. Such hospitals would be paid on the basis of the higher urban rates, rather than the rural rates. No adjustment was provided for rural referral centers with fewer than 500 beds or for referral centers located in urban areas.

Public Law 98-369: Provides that a rural hospital may appeal to the Secretary to be classified as a rural referral center on the basis of criteria established by the Secretary which would allow the hospital to demonstrate that it should be so classified because it has characteristics (such as wages, scope of services, service area, and mix of medical specialties) similar to those of a typical urban hospital located in the same census region.

49 FR 34728: The Department broadened the definition of a rural referral center to include rural hospitals that meet a case mix index threshold, a minimum number of discharges, and one of the following three criteria: more than 50 percent of the hospital's medical staff are specialists, at least 60 percent of discharges are inpatients residing more than 25 miles from the hospital, or at least 40 percent of inpatients have been referred either from other hospitals or from physicians not on the hospital's staff.

4. Outliers

Public Law 98-21: Requires the Secretary to provide for additional payments to hospitals for atypical cases, "outliers" whose length of stay exceeds the mean by a fixed number of days or a fixed number of standard deviations, whichever is fewer; or cases which do not meet the length of stay criteria but have charges adjusted to cost that exceed a fixed multiple of the DRG rate, or some other fixed dollar amount, whichever is greater. Provides that total outlier payments in a fiscal year must be between 5 and 6 percent of total projected DRG payments for that year.

49 FR 234: For fiscal year 1984, the Department defined a "day" outlier case as one for which the length of stay exceeds the average length of stay for that DRG by the lesser of 20 days or 1.94 standard deviations. The additional payment for each outlier day beyond the threshold would be 60 percent of the hospital's Federal payment amount for the DRG divided by the average length of stay for the DRG. A "cost" outlier case was defined as one for which covered charges, adjusted to operating costs, exceed the greater of 1.5 times the hospital's Federal payment amount for the DRG or $12,000. For cost outliers, the additional payment is 60 percent of the difference between the hospital's adjusted charges for the discharge and the threshold. The Department expected that under these criteria, outlier payments would approximate 6 percent of total payments to hospitals. No provision was made for outlier payments to transferring hospitals.

Public Law 98-369: No provision.

49 FR 34728: For fiscal year 1985, the Department changed the criterion for day outliers to the lesser of 22 days or 1.94 standard deviations. The criterion for cost outliers was changed to the greater of 2 times the hospital's Federal payment amount for the DRG or $13,000. The Department anticipated that these changes would reduce total outlier payments to hospitals from 6 percent to 5 percent of total DRG payments to hospitals. In addition, the Department permitted a hospital that transfers a high cost patient on or after October 1, 1984, to receive cost outlier payments.

5. Payment for indirect medical education

Public Law 98-21: Provides for additional payments to hospitals for the indirect costs of medical education, computed at twice the level of the educational adjustment factor provided under regulations in effect as of January 1, 1983—under the former "section 223" cost limits. The Federal portion of a hospital's DRG payments is then increased by this doubled factor.

49 FR 234: The educational adjustment factor in effect as of January 1, 1983 was 6.06 percent for each 0.1 increase, (above zero), in the ratio of a hospital's full-time equivalent interns and residents to its number of beds. Full-time equivalent interns and residents were defined as the sum of those employed for 35 hours or more per week, plus one-half of the total number of interns and residents working less than 35 hours per week. A hospital was allowed to count only interns and residents who were employed by and furnishing services at that hospital (excluding those employed by the hospital but furnishing services at another site).

Under PPS, the Department provided for an education adjustment factor of 11.59 percent (rather than twice the 6.06 percent factor provided in the earlier regulations). The regulations indicated that 11.59 percent was the appropriate increase after recomputing the factor using the data base on which the DRG payments were based, instead of the data base used to calculate the earlier factor. Criteria for determining which interns and residents could be counted were kept the same as in earlier regulations, except interns and residents furnishing services in the hospital but employed by an organization with a long-standing historical medical relationship with the hospital could be included.

Public Law 98-369: Provides that, effective October 1, 1984, all interns and residents who furnish services to a hospital are to be counted for purposes of determining that hospital's indirect medical education adjustment, regardless of whether or not the interns and residents are employees of that hospital.

49 FR 34728: To conform with the change in law, the Department indicated that it would now count full-time interns and residents on the basis of where their services were provided. When working at more than one hospital, each intern's or resident's time would be apportioned to each facility. To avoid the potential for counting interns and residents more than once, the Department is requiring hospitals to submit quarterly reports documenting the time worked by interns and residents. The final lump-sum payment for indirect medical education costs will not be made until the audit of a hospital's cost report is completed.

6. Payment for nonphysician anesthetists

Public Law 98-21: Provides that all nonphysician services provided to hospital inpatients would be paid for only as hospital services under Part A of Medicare, not under Part B.

49 FR 234: The Department decided to allow a time-limited exception to this provision for the inpatient hospital services of anesthetists employed by physicians. For hospital cost reporting periods beginning before October 1, 1986, physicians could continue to bill Part B for the services of anesthetists if they employed anesthetists as of hospital cost reporting periods ending before September 30, 1983. The costs of these services could not be added to the hospital's base period for purposes of determining the hospital-specific portion of the payment rate during the transition period.

Public Law 98-369: For hospital cost reporting periods beginning October 1, 1984, and ending before October 1, 1987, removes from the definition of "operating costs of inpatient hospital services" the costs of anesthesia services associated with the employment of, or contracts for, CRNA's. Such costs will not be paid for in the DRG rates, but will be passed through and paid for on the basis of reasonable costs. Requires the Secretary to study and report to Congress as soon as is practicable possible methods of reimbursement which will not discourage the use of CRNA's by hospitals. The Conference Report for this legislation indicates that the conferees understand that the administration will modify the regulations to permit physicians who did not employ CRNA's before the specified date to bill Part B for the services of CRNA's whom they have subsequently employed; such billing will terminate on October 1, 1987, rather than October 1, 1986.

49 FR 34728: The Department changed the regulations to incorporate the changes made by Public Law 98-369 (as described above). In addition, the Department clarified that these provisions apply to the costs of anesthesia services provided by qualified nonphysician anesthetists, including anesthesiology assistants as well as CRNA's.

7. Urban/rural boundaries

Public Law 98-21 and 49 FR 234: Provides that hospitals in urban areas be paid different Federal DRG rates than hospitals located in rural areas. Urban areas are defined as those located within a Metropolitan Statistical Area (MSA) or a New England County Metropolitan Area (NECMA). Rural areas are those not classified as urban areas. Provides that during a 3-year transition period hospitals be paid on the basis of Federal DRG payment amounts calculated separately for each of the nine census regions of the country.

Public Law 98-369: Provides that hospitals located in an MSA that crosses census region boundaries be deemed to be in the region in which a majority of the hospitals in that MSA are located or, at the option of the Secretary, the region from which the majority of the Medicare inpatient discharges within that MSA are made. In addition, provides that hospitals located in counties redesignated from urban to rural because of a change in the MSA or NECMA classification system since April 20, 1983, be allowed a 2-year transition to the lower rural payment rates. In the first hospital costs reporting year, the hospital would be paid the rural rate plus two-thirds of the difference between its rural and urban rates. In the second year, it would be paid the rural rate plus one-third of the difference between its rural and urban rates.

49 FR 34728: The Department changed the regulations to conform to the changes in Public Law 98-369 (as described above). However, in determining the appropriate region for hospitals in MSA's which cross more than one region's boundaries, the Department chose not to use the criterion of the number of Medicare inpatient discharges. Also, if an equal number of hospitals within the MSA are located in each census region, the Department provided that such hospitals will be deemed to be in the census region with the higher Federal rate.

REIMBURSEMENT TO PHYSICIANS

Medicare pays for physicians' services on the basis of "*reasonable charges.*" Recently, HCFA has begun calling these charges "*approved charges.*" A reasonable or approved charge for a service (in the absence of unusual circumstances) cannot exceed:

—the *actual charge* for the service;

—the physician's *customary charge* for the service; and

—the *prevailing charge* for similar services in the locality (set at a level no higher than is necessary to cover the 75th percentile of customary charges).

Carriers delineate localities which are usually political or economic subdivisions of a State. There are 225 localities nationwide.

Prior to 1984, customary and prevailing charge fee screens were updated every July 1. The annual update in the prevailing charge screens was subject to an *economic index limitation.* This limitation (expressed as a maximum allowable percentage increase) was tied to economic indexes reflecting changes in operating expenses of physicians and in earnings' levels (see table 6).

TABLE 6.—ECONOMIC INDEX VALUES AND PERCENTAGE INCREASE OVER PRIOR PERIOD

Period	Rates	Percent [1]
July 1, 1973	1.000	
July 1, 1975 to June 30, 1976	1.179	[2] 17.90
July 1, 1976 to June 30, 1977	1.276	8.23
July 1, 1977 to June 30, 1978	1.357	6.35
July 1, 1978 to June 30, 1979	1.426	5.08
July 1, 1979 to June 30, 1980	1.533	7.50
July 1, 1980 to June 30, 1981	1.658	8.15
July 1, 1981 to June 30, 1982	1.790	7.96
July 1, 1982 to June 30, 1983	1.949	8.88
July 1, 1983 to June 30, 1984	2.063	5.85
July 1, 1984 to Sept. 30, 1985	(3)	(3)

[1] Percent increase over prior period.
[2] Large increase due to delay in implementation.
[3] Not applicable.

The Deficit Reduction Act of 1984 (Public Law 98-369) freezes physicians' fees for the 15-month period July 1, 1984, through September 30, 1985. Therefore, the annual increases in the customary and prevailing charge screens otherwise slated for July 1, 1984, did not occur. Subsequent fee screen updates will occur on October 1 of future years beginning in 1985.

DEFINITION OF "ASSIGNMENT"

Medicare payments are made either directly to the doctor or to the patient depending upon whether the physician has accepted assignment for the claim. In the case of *assigned claims,* the beneficiary assigns (i.e., transfers) his right to payment from Medicare to the physician. In return, the physician agrees to accept Medicare's "approved" charge determination as payment in full for covered services. The physician bills the program directly and is paid an amount equal to 80 percent of Medicare's approved charge (less any deductible, where applicable). The patient is liable for the 20 percent coinsurance. The physician may not charge the beneficiary (nor collect from another party such as a private insurer) more than the applicable deductible and coinsurance amounts. When a physician accepts assignment, the beneficiary is therefore protected against having to pay any difference between Medicare's approved charge and the physician's actual charge. In calendar year 1983, approximately 54 percent of net claims were paid on an assignment basis. In the case of *nonassigned claims,* payment is made by Medicare directly to the beneficiary on the basis of any itemized bill, paid or unpaid. The beneficiary is responsible for paying the physician's bill. In addition to the deductible and coinsurance amounts, the beneficiary is liable for any difference between the physician's actual charge and Medicare's approved charge.

A physician (except one who becomes a participating physician) may accept or refuse requests for assignment on a bill-by-bill basis, from different patients at different times, or from the same patient at different times. However, he is precluded from fragmenting bills for the purpose of circumventing reasonable charge limitations. He must either accept assignment or bill the patient for all of the services performed on a single occasion. Additionally, when a physician treats a patient who is also eligible for Medicaid, he is essentially required to accept assignment. Total reimbursement for services provided to these dual eligibles is equivalent to the Medicare-determined approved charge with Medicaid reimbursing for the required deductible and coinsurance amounts.

The law specifies that a physician who knowingly, willfully, and repeatedly violates his assignment agreement is guilty of a misdemeanor. The penalty for conviction is a maximum $2,000 fine, up to 6 months' imprisonment, or both.

Public Law 98-369 established the concept of a participating physician. A participating physician is one who agrees to accept assignment for all services provided to all Medicare patients for the forthcoming year (see below).

THE DEFICIT REDUCTION ACT OF 1984

On July 18, 1984, the President signed into law the Deficit Reduction Act of 1984 (Public Law 98-369). This legislation freezes physicians' fees under Medicare for the 15-month period, July 1, 1984, through September 30, 1985. Therefore, the annual updating of customary and prevailing charge screens, otherwise scheduled for July 1, 1984, did not occur. Subsequent fee screen updates will occur on October 1 of future years beginning in 1985. No catchup is permitted to account for any economic index increase to the prevailing charge screen which would otherwise have occurred during the freeze period.

The law establishes the concept of a *"participating physician."* A participating physician is one who voluntarily enters into an agreement with the Secretary to accept assignment for all services provided to all Medicare patients for a future 12-month period. The first such period began October 1, 1984. The law required physicians to sign prior to that date for the 12-month period beginning on that date. After this date, only new physicians in an area or newly licensed physicians could enter into a participation agreement before the next designated time period. (The next period begins October 1, 1985.)

Participating physicians are subject to the 15-month freeze. They are, however, permitted to increase their billed charges during the freeze period. While increases in billed charges will not raise Medicare payments during the freeze period, these charges will be reflected in the calculation of future customary fee screen updates. The law includes additional incentives for physicians who agree to become participating physicians. These include the publication of directories identifying participating physicians and the maintenance by carriers of toll-free lines to provide beneficiaries with names of participating physicians.

Nonparticipating physicians (i.e., those who have not signed a voluntary participation agreement) can continue to accept assignment on a case-by-case basis. Nonparticipating physicians cannot, however, increase their billed charges during this 15-month freeze period in excess of the amounts charged for the same services during the base period (April 1, 1984, through June 30, 1984). For example, if during the base period a physician charged $22 for a service and Medicare's approved charge was $20, he could bill the beneficiary the 20 percent coinsurance ($4) plus (if he did not accept assignment on this claim) the $2 in excess of the approved charge. During the freeze period, the nonparticipating physician's fee is frozen at $22—he can not raise his charges to beneficiaries in an attempt to circumvent the freeze.

The law requires the Secretary to monitor charges of nonparticipating physicians to determine compliance with the fee freeze. The monitoring is to compare patterns of actual charges of individual physicians with their corresponding charges during the base period (April 1, 1984, through June 30, 1984).

Nonparticipating physicians who are in violation of the freeze could be subject to civil monetary penalties or assessments, exclusion for up to 5 years from the Medicare program, or both. Civil monetary penalties may be imposed in amounts up to $2,000 for each violation. The Secretary is given authority to make restitution to the beneficiary out of the amounts collected for any excess payments made by the beneficiary.

The Secretary may not impose the exclusion penalty in the case of a doctor who is the sole physician serving a community or a physician providing essential specialized services that would otherwise be unavailable. Further, the Secretary, in determining whether to bar a physician from the program, is required to take into account the access of beneficiaries to physicians' services.

The legislation authorized payments from the part B trust fund to carriers of no less than $8 million in fiscal year 1984 and $15 million in fiscal year 1985 to enable them to meet the increased costs of activities required under the new law.

ASSIGNMENT RATE EXPERIENCE

The total number of assigned claims as a percentage of total claims received by medicare carriers is known as the total assignment rate. The net assignment rate was computed in the same manner except that it omitted hospital-based physicians and group-practice prepayment plans which were considered assigned by definition (this distinction is no longer made). The net assignment rate declined since 1968, the year the Department of Health, Education, and Welfare (now the Department of Health and Human Services) began reporting this data. In the mid-1970's the rate leveled off at about 50 percent. Recently the rate has increased. Table 7 shows the net assignment rates for calendar years 1968–84.

TABLE 7.—NET ASSIGNMENT RATES, BY YEAR, 1968–84

[In percent]

Calendar year	Net assignment rate [1]
1968	59.0
1969	61.5
1970	60.8
1971	58.5
1972	54.9
1973	52.7
1974	51.9
1975	51.8
1976	50.5
1977	50.5
1978	50.6
1979	51.3
1980	51.5
1981	52.3
1982	53.0
1983	53.9
1984 [2]	56.4

[1] Represents the number of assigned claims as a percent of claims received, excluding claims from hospital-based physicians and group-practice prepayment plans that are considered assigned by definition.

[2] Fiscal year 1984.

Source: U.S. Department of Health and Human Services, Social Security Administration, Social Security Bulletin, Annual Statistical Supplement, 1983. p. 209.

The statistics included in table 6 are program-wide data. Net assignment rates also vary geographically. For example, in fiscal year 1984, the net assignment rate ranged from a high of 71.2 percent in the Boston region to a low of 31.6 percent in the Seattle region.

TABLE 8.—NET ASSIGNMENT RATES, BY REGION, FISCAL YEAR 1984

[In percent]

Region	Net assignment rate
Boston	71.2
New York	62.3
Philadelphia	70.8
Atlanta	53.6
Chicago	53.1
Dallas	54.4
Kansas City	41.8
Denver	38.3
San Francisco	55.9
Seattle	31.6

Source: Conversation with Health Care Financing Administration official.

REASONABLE CHARGE REDUCTIONS

The difference between the physician's billed charge and Medicare's approved or reasonable charge is referred to as the *reasonable charge reduction*. Reasonable charge reductions were made on 83 percent of unassigned claims in 1983. The amount of the reduction was 23 percent of billed charges or $28.69 per approved claim. Beneficiaries were liable for these reduction amounts. (Comparable figures were recorded for assigned claims through the beneficiaries were not liable for the reduction amounts.)

The impact of reasonable charge reductions on unassigned claims is spread unevenly across the population. Nationwide, 54 percent of net claims were paid on an assignment basis in 1983. Available data indicate that 23 percent of beneficiaries have all of their services assigned while 37 percent have none assigned. An estimated 20 percent of physicians always accept assignment, 30 percent never accept assignment and 50 percent accept assignment some of the time. Assignment rates vary by geographic location, ranging from a low of 19 percent of claims in Wyoming to a high of 83 percent in Rhode Island. Assignment rates also vary by location of service; 54 percent of claims for services provided to hospital inpatients are assigned while 37 percent of claims in physicians' offices are assigned. These data include claims for dual Medicare/Medicaid eligibles whose claims generally must be assigned. When claims from this population group are excluded, the nationwide assignment rate is estimated at 35 percent, with 15 percent of beneficiaries having all of their claims assigned 42 percent having none of their claims assigned.

TABLE 9.—REASONABLE CHARGE REDUCTIONS FOR MEDICARE PART B (EXCLUDES CLAIMS FROM HOSPITAL-BASED PHYSICIANS AND GROUP-PRACTICE PREPAYMENT PLANS) FOR ASSIGNED AND NOT ASSIGNED CLAIMS, FISCAL YEARS 1973–1983

	1973	1974	1975	1976	1977	1978	1979	1980	1981 [1]	1982 [1]	1983 [2]
Percentage of claims reduced:											
Assigned	51.5	61.0	68.3	73.1	72.8	73.4	75.8	80.0	82.7	83.1	82.4
Not assigned	63.5	70.6	75.6	78.4	77.1	77.2	79.9	83.7	85.7	85.6	83.9
Percentage reduction in charges for covered services:											
Assigned	11.4	13.0	16.4	19.0	19.4	19.8	20.8	22.5	23.9	24.3	23.8
Not assigned	12.4	13.6	16.6	18.8	19.1	19.1	20.3	22.3	23.7	24.1	23.1
Amount reduced per approved claim:											
Assigned	$6.95	$8.24	$11.13	$13.74	$14.93	$16.11	$18.34	$21.81	$25.84	$29.32	$31.20
Not assigned	$9.34	$10.44	$13.45	$15.75	$16.53	$16.76	$18.64	$21.96	$25.13	$28.10	$28.48

[1] Data excludes Texas Blue Shield.

[2] These data are slightly understated due to underreporting by Equitable.

Source: Department of Health and Human Services, Health Care Financing Administration, Bureau of Program Operations, Part B Reasonable Charge and Denial Activity Report: Fiscal year 1983.

APPENDIX E. BRIEF EXPLANATION OF MEDICAID PROGRAM AND INTERACTION WITH AFDC, SSI, AND MEDICARE PROGRAMS

Medicaid

Medicaid, authorized under title XIX of the Social Security Act, is a Federal-State matching program providing medical assistance for low-income persons who are aged, blind, disabled, or members of families with dependent children. Within Federal guidelines, each State designs and administers its own program. Thus there is substantial variation among the States in terms of persons covered, types, and scope of benefits offered, and amounts of payments for services. Public Law 97-35, the Omnibus Budget Reconciliation Act of 1981, authorized reductions in Federal payments to the States over the fiscal year 1982-84 period and provided States with increased flexibility in designing and modifying their programs.

Medicaid eligibility is directly linked to eligibility under programs within the jurisdiction of the Committee on Ways and Means, namely AFDC and SSI. Further, some poor aged persons are covered under both the Medicare and Medicaid programs.

ELIGIBILITY

Eligibility for Medicaid is linked to actual or potential receipt of cash assistance under the federally assisted Aid to Families With Dependent Children (AFDC) program and the Federal Supplemental Security Income (SSI) program for the aged, blind, and disabled; there are two classes of eligibility under medicaid: categorically needy and medically needy.

CATEGORICALLY NEEDY

All States[1] cover the categorically needy under their Medicaid programs. In general, these are persons receiving assistance under AFDC or SSI. States have the option of limiting Medicaid coverage of SSI recipients by requiring them to meet any more restrictive eligibility criterion that was in effect on January 1, 1972 (before implementation of SSI). States choosing the more restrictive criteria must allow applicants to deduct medical expenses from income in determining eligibility. Fourteen States currently employ more restrictive criteria.

These States are:

Connecticut
Hawaii
Illinois
Indiana
Minnesota
Missouri
Nebraska
New Hampshire
North Carolina
North Dakota
Ohio
Oklahoma
Utah
Virginia

---

[1] Arizona does not operate a traditional Medicaid Program. Beginning October 1, 1982, it began implementation of a 3-year demonstration project under which a specified set of services will be provided to the indigent on a prepaid basis.

States may also cover additional persons as categorically needy; these include persons receiving State supplement SSI payments (SSP) or persons who would be eligible for cash assistance except that they are residents in medical institutions (such as skilled nursing facilities).

States must extend Medicaid eligibility to aged, blind, and disabled persons who were eligible for Medicaid in December 1973 as long as they meet the 1973 criteria; persons receiving mandatory State supplementary payments; persons who would be eligible for cash aid except for a State barrier disallowed by Medicaid law; and persons actually receiving SSI and/or SSP payments who lose their eligibility for SSI or SSP solely because of a cost-of-living social security increase provided they would otherwise still be eligible for such aid. Medicaid coverage must also be extended for 4 additional months to certain families whose AFDC cash assistance has been terminated provided they had received AFDC for at least 3 of the preceding 6 months; this extension applies to families whose AFDC coverage has been terminated due to increased income from or hours of employment.

Automatic Medicaid coverage for poor families is generally linked to the receipt of AFDC cash assistance, thereby restricting coverage for certain persons. This occurs in part because AFDC assistance is available only to families where one parent is absent, incapacitated, or in certain States, unemployed. To receive AFDC, a family must also meet a cash assistance standard established by each State.

Despite these restrictions, the law requires States to cover specified groups of persons even though they are not actually receiving cash payments under the AFDC program. Effective October 1, 1984, States are required to provide coverage to the following groups of persons meeting AFDC income and resources requirements:

—First time pregnant women from the time of medical verification of pregnancy;

—Pregnant women in two-parent families where the principal breadwinner is unemployed, from the medical verification of pregnancy; and

—All children born on or after October 1, 1983, up to age 5.

States are also required to extend Medicaid coverage to families who lose their eligibility for AFDC and therefore Medicaid because the disregard provision of the AFDC program can no longer be applied to them. This AFDC provision requires States, for purposes of calculating AFDC benefits during the first few months of a job, to disregard one-third of monthly earnings that remain after deduction of the first $30 in monthly earnings, a standard allowance, and child care costs up to a specified level. States are now required to provide 9 months of Medicaid coverage (and may at their option extend coverage for an additional 6 months) to families who lose their AFDC eligibility because of the expiration of the disregard. Families who lost eligibility prior to October 1, 1984, are also eligible for Medicaid for the same time period, provided:

—They disclose any private health insurance coverage at the time of application;

—They apply within 6 months froom the date the implementing regulations become final; and

—They would have been continuously eligible for AFDC if the $30 plus one-third disregard had been applied.

States may also extend coverage to additional population groups. A State may extend coverage to two-parent families where one parent is employed (even if such families are ineligible for AFDC in the State). States are required to extend coverage to all children under age 5 born on or after October 1, 1983, provided they meet the AFDC cash assistance standards. States may also cover all or specified categories of children under age 18 (or, at State option, age 21), providing they meet the AFDC cash assistance standards. For example, States may cover children in foster care or subsidized adoptions.

Medically Needy

States may also cover the medically needy under their Medicaid programs. These are persons whose income is slightly in excess of the standards for cash assistance, provided that: (1) they are aged, blind, disabled, or members of families with dependent children, and (2) their income (after deducting incurred medical expenses) falls below the State standard. As of December 1, 1984, 36 States and jurisdictions provided medically needy coverage. These States are:

Arkansas
California
Connecticut
Washington, D.C.
Guam
Hawaii
Illinois
Kansas
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Montana
Nebraska
New Hampshire
New York
North Carolina
North Dakota
Northern Mariana Islands
Oklahoma
Oregon (limited program)
Pennsylvania
Puerto Rico
Rhode Island
South Carolina (limited program)
Tennessee
Utah
Vermont
Virgin Islands
Virginia
Washington
West Virginia
Wisconsin

Prior to enactment of Public Law 97-35, States having medically needy programs were required to offer comparable coverage to all four groups (that is, aged, blind, disabled, and members of families with children). Public Law 97-35 provides that, if a State offers medically needy coverage to any group, it must at a minimum provide ambulatory services to children and prenatal and delivery services for pregnant women.

Medicare-Medicaid Relationship

About 12 percent of aged and disabled Medicare enrollees are also covered by State Medicaid programs. While coverage under Medicare part A (hospital insurance) is automatic for most aged and certain disabled having insured status under the Social Security system, coverage under Medicare part B (supplementary medical insurance) requires the payment of a monthly premium. Most States make this payment for their Medicaid eligibles under a buy-in agreement. While States may buy-in to Medicare for both their cash-assistance and medically needy populations who are eligible for Medicare, Federal matching for premium payments is only available for the cash assistance group. If a State does not buy-in to part B coverage, it cannot receive Federal matching payments for services that would have been covered under Medicare if there had been a buy-in arrangement. Three States and two jurisdictions do not currently have a buy-in arrangement. These are: Louisiana, Oregon, Wyoming, Puerto Rico, and Northern Mariana Islands.

Medicaid basically supplements Medicare for persons who are dually eligible. Medicare makes the primary payment while State Medicaid expenditures are limited to payments for deductibles, coinsurance, and services not covered by Medicare.

SERVICES

States are required to offer the following services to categorically needy recipients under their Medicaid programs: inpatient and outpatient hospital services; laboratory and X-ray services; skilled nursing facility (SNF) services for those over age 21; home health services for those entitled to SNF care; early and periodic screening, diagnosis, and treatment (EPSDT) for those under age 21; family planning services and supplies; and physicians' services. They may also provide additional medical services such as drugs, intermediate care facility (ICF) services, eyeglasses, inpatient psychiatric care for individuals under age 21 or over 65. States are permitted to establish limitations on the amount of care provided under a service category (such as limiting the number of days of covered hospital care or number of physicians' visits).

Federal law establishes the following requirements for coverage of the medically needy: (1) if a State provides medically needy coverage to any group it must provide ambulatory services to children and prenatal and delivery services for pregnant women; (2) if a State provides institutional services for any medically needy group it must also provide ambulatory services for this population group; and (3) if the State provides medically needy coverage for persons in intermediate care facilities for the mentally retarded (ICF/MRs), it must offer to all groups covered in its medically needy program the same mix of institutional and noninstitutional services as required under prior law (that is, either all of the mandatory services or alternatively the care and services listed in 7 of the 17 paragraphs in the law defining covered services).

FINANCING

The Federal Government helps States share in the cost of Medicaid services by means of a variable matching formula which is periodically adjusted. The matching rate, which is inversely related to a State's per capita income, can range from 50 percent to 83 percent though currently the highest rate is 77.63 percent. Federal matching for the territories is set at 50 percent with a maximum dollar limit placed on the amount each territory can receive. The Federal share of administrative costs is 50 percent for all States except for certain items where the authorized rate is higher.

Public Law 97–35 provided that the amount of Federal matching payments to which a State was otherwise entitled was to be reduced by 3 percent in fiscal year 1982, 4 percent in fiscal year 1983, and 4.5 percent in fiscal year 1984. A State could lower the amount of its reduction by 1 percentage point for each of the following: (1)

operating a qualified hospital cost review program; (2) sustaining an unemployment rate exceeding 150 percent of the national average; and (3) demonstrating recoveries from fraud and abuse activities (and with respect to fiscal year 1982, third-party recoveries) equal to 1 percent of Federal payments. A State was entitled to a dollar-for-dollar offset in its reductions if total Federal Medicaid expenditures in a year fell below a specified target amount. In no case could the amount recovered exceed the total amount of reductions.

REIMBURSEMENT POLICY

States have considerable leeway in setting reimbursement levels for services. They are required to reimburse hospitals, skilled nursing facilities, and intermediate care facilities at rates that are reasonable and adequate to meet the cost which must be incurred by efficiently and economically operated facilities in order to meet applicable laws and quality and safety standards. In developing their payment rates for hospitals, States are required to take into account the situation of facilities which serve a disproportionate number of low-income patients. Further, hospital payment rates must be sufficient to assure that Medicaid patients have reasonable access to services of adequate quality.

Practitioners and providers are required to accept payments under the program as payment in full for covered services except where nominal cost-sharing charges may be required. States may generally impose such charges with certain exceptions. They are precluded from imposing such charges on services for children under 18, services related to pregnancy, family planning or emergency services, HMO services for the categorically needy, and services provided to SNF or ICF inpatients who are required to spend all of their income for medical care except for a personal needs allowance.

ADMINISTRATION

Medicaid is a State-administered program. At the Federal level, the Health Care Financing Administration (HCFA) of the Department of Health and Human Services is responsible for overseeing State operations.

Federal law requires that a single State agency be charged with administration of the Medicaid program. Generally, that agency is either the State welfare agency, the State health agency, or the umbrella human resources agency. The single State agency may contract with other State entities to conduct some program functions. Further, States may process claims for reimbursement themselves or contract with fiscal agents or health insuring agencies to process these claims.

PROGRAM DATA

Federal Medicaid outlays are estimated (in the absence of legislative changes) at $23.0 billion in fiscal year 1985, a 14.4 percent increase over the $20.1 billion estimated for fiscal year 1984. Some of the increase in Federal spending is attributable to the discontinuance of the temporary reductions in Federal payments applicable over the fiscal year 1982–84 period.

The primary factor contributing to program increases has been inflation, particularly inflation in medical care prices. However, in recent years States have taken significant steps to slow program growth. Of particular importance are new State initiatives and experimentation in the organization, financing, and reimbursement of services.

TABLE 1.—HISTORY OF MEDICAID PROGRAM COSTS

Fiscal year	Total		Federal		State	
	Dollars (in millions)	Percent increase	Dollars (in million)	Percent increase	Dollars (in millions)	Percent increase
1966 [1]	$1,658	....	$789	....	$869	....
1967 [1]	2,368	42.9	1,209	53.2	1,159	33.5
1968 [1]	3,659	55.6	1,837	51.9	1,849	59.5
1969 [1]	4,166	13.0	2,276	23.9	1,890	2.2
1970 [1]	4,852	16.5	2,617	15.0	2,235	18.3
1971	6,176	27.3	3,374	28.9	2,802	25.3
1972 [2]	8,434	36.6	4,361	29.2	4,074	45.4
1973	9,111	8.0	4,998	14.6	4,113	1.0
1974	10,229	12.3	5,833	16.7	4,396	6.9
1975	12,637	23.5	7,060	21.0	5,578	26.9
1976	14,644	15.9	8,312	17.7	6,332	13.5
TQ [3]	4,106	NA	2,354	NA	1,752	NA
1977	17,103	[4] 16.8	9,713	[4] 16.9	7,389	[4] 16.7
1978	18,949	10.8	10.680	10.0	8,269	11.9
1979	21,755	14.8	12,267	14.9	9,489	14.8
1980	25,781	18.5	14,550	18.6	11,231	18.4
1981	30,377	17.8	17,074	17.3	13,303	18.4
1982	32,446	6.8	17,514	2.6	14,931	12.2
1983	34,956	7.7	18,985	8.4	15,971	7.0
1984 (current law estimate)	37,631	7.7	20,094	5.8	17,537	9.8

1985 (current law estimate) [5]	42,392	12.7	[6] 22,994	14.4	[6] 19,398	10.6
1986 (current law estimate)	45,982	8.5	24,742	7.6	21,240	9.5

---

[1] Includes related programs which are not separately identified though for each successive year a larger portion of the total represents Medicaid expenditures. As of Jan. 1, 1970, Federal matching was only available under Medicaid.

[2] Intermediate care facilities (ICFs) transferred from the cash assistance programs to Medicaid effective January 1, 1972; data for prior periods do not include these costs.

[3] Transitional quarter (beginning of Federal fiscal year moved from July 1 to Oct. 1).

[4] Represents increase over fiscal year 1976, i.e., five calendar quarters.

[5] Includes transfer of function of State fraud control units to Medicaid from Office of Inspector General.

[6] Temporary reductions in Federal payments authorized for fiscal years 1982–84 will be discontinued in fiscal year 1985.

Note: Totals may not add due to rounding.

Sources: "Budget of the U.S. Government" fiscal years 1969–85, and conversations with officials of Health Care Financing Administration.

TABLE 2.—UNDUPLICATED NUMBER OF MEDICAID RECIPIENTS BY ELIGIBILITY CATEGORY, FISCAL YEARS 1972–83

[Number in thousands]

Fiscal year	Total	Aged 65 or over	Blindness	Permanent and total disability	Dependent children under age 21	Adults in families with dependent children	Other [1]
Ending June:							
1972	17,606	3,318	108	1,625	7,841	3,137	1,576
1973	19,622	3,496	101	1,804	8,659	4,066	1,495
1974	21,462	3,732	135	2,222	9,478	4,392	1,502
1975	22,007	3,615	109	2,355	9,598	4,529	1,800
1976	22,815	3,612	97	2,572	9,924	4,774	1,836
Ending September:							
1977[2]	22,831	3,636	92	2,710	9,651	4,785	1,959
1978	21,965	3,376	82	2,636	9,376	4,643	1,852
1979	21,520	3,364	79	2,674	9,106	4,570	1,727
1980	[3] 21,605	3,440	92	2,819	9,333	4,877	1,499
1981	[3] 21,980	3,367	86	2,993	9,581	5,187	1,364
1982	[3] 21,603	3,240	84	2,806	9,563	5,356	1,434
1983	[3] 21,494	3,247	76	2,956	9,418	5,467	1,325
1984[3]	21,915	3,097	74	2,865	9,221	5,347	1,311
1985 (current law estimate)[3]	22,147	3,123	75	2,921	9,285	5,381	1,362
1986 (current law estimate)[3]	22,524	3,152	77	2,979	9,388	5,449	1,479

[1] This category is composed predominantly of children not meeting the definition of "dependent" children, i.e., "Ribicoff children."

[2] Fiscal year 1977 began in October 1976 and was the first year of the new Federal fiscal cycle. Before 1977, the fiscal year began in July.

[3] Beginning in fiscal year 1980, recipients' categories do not add to the unduplicated total due to the small number of recipients that are in more than one category during the year.

Sources: Social Security Bulletin, Annual Statistical Supplement, 1983, SSA Publication No. 13–11700. Fiscal years 1984–86 data from HCFA, unpublished tables.

TABLE 3.—TOTAL AND PER CAPITA MEDICAID PAYMENTS FOR CATEGORICALLY NEEDY AND MEDICALLY NEEDY, PRELIMINARY ESTIMATES, FISCAL YEAR 1983

	Amount (in millions)	Percent	Per capita amount
Categorically needy:			
Receiving cash payments	$17,089.1	52.8	$1,059
Aged	3,003.9	9.3	1,686
Blind	132.6	0.4	2,004
Disabled	6,863.7	21.2	3,176
Children in AFDC families	3,243.1	10.0	409
Adults in AFDC families	3,845.8	11.9	884
Not receiving cash payments	6,400.0	19.8	3,437
Aged	4,034.0	12.5	5,971
Blind	20.8	0.1	4,103
Disabled	1,837.3	5.7	6,924
Children in AFDC families	179.3	0.6	363
Adults in AFDC families	166.7	0.5	529
Other title XIX recipients	161.8	0.5	954
Total, categorically needy	23,489.1	72.6	NA
Medically needy:			
Aged	4,915.9	15.2	6,227
Blind	29.6	0.1	5,959
Disabled	2,482.1	7.7	7,005
Children in AFDC families	399.7	1.2	569
Adults in AFDC families	470.6	1.5	906
Other title XIX recipients	563.5	1.7	1,064
Total, medically needy	8,861.4	27.4	3,154
Total	32,350.5	100.0	1,617

Note: Totals may not add due to rounding. The per capita is based on data which exclude the territories.

NA—Not available.

Source: Health Care Financing Administration (HCFA), DHHS, unpublished tables.

TABLE 4.—MEDICAID RECIPIENTS AND PAYMENTS BY BASIS OF ELIGIBILITY, PRELIMINARY ESTIMATES, FISCAL YEAR 1983

	Amount (in millions)	Percent of total	Recipients (in thousands)	Percent of total	Per capita payment
Aged	$11,953.9	37.0	3,249	14.5	$3,681
Blind	183.1	0.6	76	0.3	2,401
Disabled	11,183.1	34.6	2,952	13.1	3,784
Dependent children under 21	3,822.1	11.8	9,412	41.9	406
Adults in families with dependent children	4,483.1	13.9	5,456	24.3	820
Other	725.3	2.2	1,323	5.9	547
Total	32,350.5	100.0	[1] 21,471	[2] 100.0	1,505

[1] Total is unduplicated count of recipients. A small number of recipients are in more than one category during the year.

[2] The percent of recipients in based upon the unduplicated count.

Note: Totals may not add due to rounding. Based on data which include the territories.

Source: HCFA, unpublished tables.

TABLE 5.—MEDICAID PAYMENTS BY SERVICE CATEGORY, FISCAL YEAR 1983

	Amount (in millions)	Percent
Inpatient hospital	$9,734.6	30.1
General	(8,802.0)	(27.2)
Mental [1]	(932.6)	(2.9)
Skilled nursing facilities	4,621.0	14.3
Intermediate care facilities [1]	9,459.4	29.2
Facilities for mentally retarded [1]	(4,078.8)	(12.6)
Other [1]	(5,380.6)	(16.6)
Physician	2,174.6	6.7
Dental [1]	467.1	1.4
Other practitioner [1]	226.2	0.7
Outpatient hospital	1,544.9	4.8
Clinic [1]	478.9	1.5
Lab and X-ray	183.8	0.6
Home health	597.2	1.8
Prescribed drugs [1]	1,771.2	5.5
Family planning	156.0	0.5
Early and periodic screening	115.7	0.4
Rural health clinic	5.5	(3)
Other [2]	814.5	2.5
Total	32,350.5	100.0

[1] Optional services.

[2] Predominantly optional services.

[3] Less than 0.1.

Note: Totals may not add due tc rounding. Based on data which include the territories.

Source: HCFA, unpublished tables.

TABLE 6.—AVERAGE EXPENDITURE PER RECIPIENT FOR CATEGORICALLY NEEDY PERSONS WHO ARE ALSO RECEIVING AN SSI OR AFDC PAYMENT, BY BASIS OF ELIGIBILITY, BY STATE, PRELIMINARY ESTIMATES, FISCAL YEAR 1983

[In dollars]

State	Total	SSI aged	SSI blind	SSI disabled	AFDC child	AFDC adult
United States	1,059	1,686	2,003	3,176	409	884
Alabama	844	844	1,279	1,784	342	778
Alaska	2,283	6,575	2,398	6,406	616	1,062
Arkansas	1,197	1,260	2,203	2,523	378	844
California	845	834	1,471	2,220	344	757
Colorado	1,521	2,679	14,621	6,684	356	770
Connecticut	782	1,466	2,838	2,739	474	999
Delaware	982	2,316	1,486	3,379	407	815
District of Columbia	1,540	5,424	3,594	5,034	478	1,137
Florida	904	1,209	1,557	2,300	317	700
Georgia	1,078	1,175	1,719	2,402	396	1,029
Hawaii	835	1,880	2,031	3,757	390	880
Idaho	574	650	422	1,338	363	814
Illinois	841	1,807	1,919	3,088	399	836
Indiana	1,227	3,819	3,093	5,587	472	1,248
Iowa	1,110	1,689	1,458	4,396	474	957
Kansas	1,204	2,305	3,199	5,150	482	1,028
Kentucky	847	964	1,481	2,012	297	772
Louisiana	1,338	1,476	2,336	3,676	397	924
Maine	963	1,490	1,824	2,654	361	896

TABLE 6.—AVERAGE EXPENDITURE PER RECIPIENT FOR CATEGORICALLY NEEDY PERSONS WHO ARE ALSO RECEIVING AN SSI OR AFDC PAYMENT, BY BASIS OF ELIGIBILITY, BY STATE, PRELIMINARY ESTIMATES, FISCAL YEAR 1983—Continued

[In dollars]

State	Total	SSI aged	SSI blind	SSI disabled	AFDC child	AFDC adult
Maryland	954	2,258	1,955	2,368	486	1,017
Massachusetts	1,394	1,903	....	3,903	568	1,065
Michigan	819	1,971	2,309	3,491	351	947
Minnesota	1,440	4,235	5,526	9,005	410	834
Mississippi	736	903	1,164	1,487	323	755
Missouri	640	996	1,200	1,369	427	763
Montana	1,112	2,049	2,633	3,002	374	1,075
Nebraska	1,218	2,952	4,210	4,127	474	864
Nevada	1,946	1,480	2,448	6,861	644	1,271
New Hampshire	655	625	1,105	2,202	276	512
New Jersey	1,002	2,525	2,191	3,375	416	935
New Mexico	983	974	2,842	2,481	368	932
New York	1,698	3,778	5,468	5,026	574	1,045
North Carolina	943	1,399	2,042	2,763	369	756
North Dakota	1,534	3,422	1,791	4,237	627	1,106
Ohio	1,074	2,932	2,596	4,243	488	1,096
Oklahoma	859	1,701	1,828	2,474	249	475
Oregon	818	2,375	2,154	2,573	316	867
Pennsylvania	942	2,605	1,572	3,359	311	644
Rhode Island	987	2,614	1,419	3,299	311	660

South Carolina	742	914	996	1,626	214	694
South Dakota	1,492	2,085	1,841	4,727	470	877
Tennessee	1,097	1,049	1,676	2,122	555	981
Texas	1,384	1,488	2,121	3,816	428	1,178
Utah	1,211	1,546	1,525	5,383	385	972
Vermont	1,173	1,765	1,539	4,401	354	684
Virginia	1,104	2,025	1,800	3,222	332	812
Washington	1,142	4,933	4,934	14,260	403	835
West Virginia	553	972	1,057	1,140	242	543
Wisconsin	1,141	1,846	4,918	4,512	489	941
Wyoming	979	1,969	1,187	3,564	433	944

Source: HCFA, DHHS, unpublished tables.

Section 5. OASDHI Financing

OVERVIEW

This section presents a discussion of social security financing, divided into 4 main parts: current law; a brief history of the financing structure, including a discussion of the impact of indexing and of the 1977 and later amendments; the status of the OASDHI (old age, survivors, disability, and hospital insurance) trust funds under four alternative economic scenarios over the period from 1984 to 1990; and a brief discussion of the long-term financial status of OASDHI funds.

CURRENT LAW FINANCING

The social security programs (OASDHI) are financed through the payroll tax and from income taxes paid on social security benefits on a pay-as-you-go basis; that is, current income to the system goes out directly to meet current benefit obligations. Any funds collected in excess of the amount needed to make benefit payments are held in the trust funds as reserves, and are invested in Government securities. These reserves serve as a cushion against temporary shortfalls in revenues or large increases in outlays due to economic fluctuations; the reserves also provide interest revenues to the trust funds.

Trust fund income is dependent on the amount of wages covered by social security on which contributions are made according to the payroll tax rate for each year. Benefit outlays are made under a permanent appropriation, in the amount to which beneficiaries are entitled based on their earnings records, and are not limited to the amount of revenue flowing into the trust fund from contributions and interest. If, as has occurred in the recent past, yearly income is insufficient to cover benefit payments, reserve funds are used to make up the difference. As a result of changes made in the Social Security Amendments of 1983, to insure adequate financing of social security benefits and to provide automatic adjustments in the cost of living benefit increase dependent on the level of trust fund reserves, the OASDI trust funds are currently showing a surplus of revenues over outlays.

The payroll tax (known as FICA, or Federal Insurance Contributions Act) is levied on wages in employment covered by social security, with portions of the total tax rate allocated by law to each of the three trust funds (OASI, DI and HI). All persons who work in covered employment pay this mandatory tax on their earnings up to a maximum dollar amount (known as the contribution and benefit base, or earnings base). Employers pay an equal tax rate for these workers. Beginning in 1984 self-employed workers pay social security taxes that are equivalent to the combined employer-employee rate and receive a partial credit against that tax. Under current law, as of January 1985, the tax paid by both the employer and employee is 7.05 percent of the first $39,600 of earnings (self-employed persons pay 14.00 percent). Future increases in the tax rates are set in the law, while increases in the earnings base are automatic, based on the increase in average wages in the economy (excluding self-employment earnings) each year. Table 1 summarizes the current payroll tax schedule:

TABLE 1.—CURRENT LAW SOCIAL SECURITY PAYROLL TAX RATES FOR EMPLOYERS AND EMPLOYEES EACH AND TAXABLE EARNINGS BASES, BY INDIVIDUAL AND COMBINED TRUST FUNDS, 1977 AND AFTER

Calendar year	Employee and employer rates, each (percent)					Taxable earnings base
	OASI	DI	OASDI combined	HI	OASDHI combined	
1977	4.375	0.575	4.950	0.900	5.850	$16,500
1978	4.275	.775	5.050	1.100	6.050	17,700
1979	4.330	.750	5.080	1.050	6.130	22,900
1980	4.520	.560	5.080	1.050	6.130	25,900
1981	4.700	.650	5.350	1.300	6.650	29,700
1982	4.575	.825	5.400	1.300	6.700	32,400
1983	4.775	.625	5.400	1.300	6.700	35,700
1984	5.200	.500	5.700	1.300	[1] 7.000	37,800
1985	5.200	.500	5.700	1.350	7.050	39,600
1986–87	5.200	.500	5.700	1.450	7.150	([2])
1988–89	5.530	.530	6.060	1.450	7.510	([2])
1990–99	5.600	.600	6.200	1.450	7.650	([2])
2000 and after	5.490	.710	6.200	1.450	7.650	([2])

[1] A tax credit of 0.3 percent of taxable wages was allowed against the tax paid by employees, so that the effective employee withholding rate for 1984 will be 6.7 percent.

[2] Subject to automatic increase.

TABLE 2.—CURRENT LAW SOCIAL SECURITY PAYROLL TAX RATES FOR SELF-EMPLOYED INDIVIDUALS, BY INDIVIDUAL AND COMBINED TRUST FUNDS, 1980 AND AFTER

Calendar year	OASI	DI	OASDI combined	HI	OASDHI combined
1980	6.2725	0.7775	7.05	1.05	9.30
1981	7.0250	0.9750	8.00	1.30	9.30
1982	6.8125	1.2375	8.05	1.30	9.35
1983	7.1125	0.9375	8.05	1.3	9.35
1984	10.4000	1.0000	11.40	2.60	[1] 14.00
1985	10.4000	1.0000	11.40	2.70	[1] 14.10
1986–87	10.4000	1.0000	11.40	2.90	[1] 14.30
1988–89	11.0600	1.0600	12.12	2.90	[1] 15.02
1990–99	11.2000	1.2000	12.40	2.90	15.30
2000 and after	10.9800	1.4200	12.40	2.90	15.30

[1] Before tax credits.

In 1940, approximately 24 million persons worked in employment covered by the social security system. Over the years, major categories of workers were brought under the system, such as State and local government employees (on a voluntary basis), regularly employed farm and domestic workers, members of the armed services, and self-employed professionals such as physicians and lawyers. In 1982, over 116 million workers and 95 percent of all jobs in the United States were covered under social security. The present law social security earnings base, as revised by the 1977 Amendments and updated automatically according to wage increases in the economy, provides that about 90 percent of all covered earnings are taxable.

While coverage is compulsory for most types of employment, approximately 8 million jobs were exempt from coverage under social security. The majority of these noncovered positions were and still are in the Federal Government, whose employees have not generally been allowed to participate in social security and in State and local governments. Beginning January 1, 1983, Federal employees were covered under the medicare portion of the social security tax, and as of January 1, 1984, all new Federal employees are covered under the OASDI portion as well. About 70 percent of State and local government jobs (10 million out of 14.8 million jobs), and about 80 percent of nonprofit organization jobs were covered by social security as of 1981. Beginning January 1, 1984, all employees of nonprofit organizations are covered, and no terminations of social security coverage by State government entities are allowed. (See Appendix I for a discussion of the Social Security Amendments of 1983 which included these changes (see table 3).) Table 4 shows State-by-State data on State and local government jobs covered as of March 1980.

TABLE 3.—SOCIAL SECURITY COVERAGE, 1981

[In millions]

Occupational group	Number of employees	Covered[1]	
		Number	Percent
Specifically exempt from OASI coverage:			
Federal Civilian employees	3.5	0.5	[2] 15.4
Voluntary coverage:			
State and local government	14.8	10.1	68.2
Nonprofit organization	6.8	5.3	78.8
Mandatorily covered:			
Industry and commerce	77.2	77.0	99.7
Farm [3]	2.2	1.6	74.6
Domestic [3]	2.0	.6	28.1
Self-employed [3]	9.0	6.8	75.5

[1] Data on covered employment are based upon class of worker of major job determined by highest amount of taxable wages, employed over the year 1981.

[2] Federal employees who are temporary or who work for quasi-Federal agencies such as TVA are covered.

[3] Mandatorily covered if special minimum coverage requirements met. Special minimum requirements for coverage generally relate to amount of wages earned—for example, domestic employees must receive at least $50 from one employer during a calendar quarter for those wages to be covered.

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 4.—ESTIMATES OF SOCIAL SECURITY COVERAGE OF STATE AND LOCAL GOVERNMENT JOBS, MARCH 1980

[Number in thousands]

State[1]	Number of jobs	Number of jobs covered	Percent covered
Total	13,364	9,327	70
1. California	1,421	573	40
2. New York	1,097	1,025	93
3. Texas	812	435	54
4. Illinois	638	243	38
5. Ohio	602	0	0
6. Pennsylvania	572	552	97
7. Michigan	559	511	91
8. Florida	528	449	85
9. New Jersey	435	435	100
10. North Carolina	359	329	92
11. Georgia	356	272	76
12. Massachusetts	339	0	0
13. Virginia	316	316	100
14. Wisconsin	311	257	82
15. Indiana	306	267	87
16. Minnesota	275	188	68
17. Missouri	270	204	76
18. Maryland	262	241	92

TABLE 4.—ESTIMATES OF SOCIAL SECURITY COVERAGE OF STATE AND LOCAL GOVERNMENT JOBS, MARCH 1980—Continued

[Number in thousands]

State [1]	Number of jobs	Number of jobs covered	Percent covered
19. Tennessee	257	221	86
20. Washington	252	248	98
21. Louisiana	249	39	16
22. Alabama	226	226	100
23. Oklahoma	188	159	85
24. Colorado	187	44	24
25. Kentucky	187	126	68
26. Iowa	185	178	96
27. South Carolina	184	176	96
28. Oregon	175	158	90
29. Connecticut	165	93	57
30. Arizona	164	140	85
31. Kansas	164	147	90
32. Mississippi	150	150	100
33. Arkansas	125	119	95
34. Nebraska	115	107	93
35. West Virginia	113	105	93
36. New Mexico	89	69	78
37. Utah	89	79	89
38. Maine	70	24	34
39. Idaho	59	57	97
40. Hawaii	58	42	72
41. Montana	57	49	85
42. New Hampshire	54	49	90
43. Rhode Island	52	39	74
44. North Dakota	52	39	74
45. South Dakota	48	42	87
46. Nevada	47	3	6
47. Wyoming	42	34	83
48. Alaska	36	17	46
49. Delaware	35	23	66
50. Vermont	30	28	92

[1] States are ranked by number of jobs.

Source: Research and Statistics Note No. 5, Dec. 7, 1983, Office of Research, Statistics and International Policy.

HISTORY OF FINANCING STRUCTURE

Current cost funding

The social security system has been financed from its inception on a "pay-as-you-go" basis; i.e., current income to the system pays for current benefits. If the system were to be "advance funded" (i.e., reserves adequate to pay all benefits to which current workers and beneficiaries are entitled), an enormous amount of capital would have to be held by the trust funds in the form of public or private debt obligations. It has been thought preferable to avoid having the Federal Government hold such large amounts of public or private capital; therefore, financing has been provided through congressionally approved payroll tax increases from time to time based on projections of the current revenues needed to meet current benefit costs. While such projections covered periods of 50 to 75 years into the future, they typically did not envision tax increases going into effect until they were actually needed to meet the immediate benefit expenditures of the time. Table 5 provides a summary of major past increases in tax rates in the program.

TABLE 5.—SELECTED TAX TABLE AND WAGE BASE INCREASES, 1937–85

	Wage base	Contribution rate (percent) employer/employee each			
		Total	OASI	DI	HI
1937	$3,000	1.0	1.0		
1950	3,000	1.5	1.5		
1955	4,200	2.0	2.0		
1959	4,800	2.5	2.25	0.25	
1966	6,600	4.2	3.5	.35	0.35
1970	7,800	4.8	3.65	.55	.60
1974	13,200	5.85	4.375	.575	.90
1978	17,700	6.05	4.275	.775	1.00
1979	22,900	6.13	4.33	.75	1.05
1981	29,700	6.65	4.525	.825	1.30
1982	32,400	6.70	4.575	.825	1.30
1984	37,800	[1] 7.00	5.200	.500	1.30
1985	39,600	7.05	5.200	.500	1.35

[1] Employees receive tax credit of 0.3 percent.

Impact of indexing benefit structure

In 1972, Congress approved both a major one-time OASDI benefit increase of 20 percent and a new system for increasing OASDI benefits automatically each year according to increases in the cost of living, beginning in 1975. Before this method of automatic indexing was enacted, benefit increases were approved on an ad hoc basis, and financing was reexamined each time to assure revenues were adequate to meet benefit payments. In fact, financing was based on conservative estimates of the general performance of the economy—a "level-earnings" methodology, which assumed that the only future increase in revenues to the trust fund would come from growth in total covered wages resulting from having more workers in the economy as the population increased.

This methodology repeatedly produced unplanned surpluses under existing tax rates, as the economy expanded and the level of wages increased at the same time as the total number of workers increased. The financing of the expansion of benefits and benefit levels throughout the 1960's was largely based on these projections of surpluses in the funds.

With the advent of indexation of OASDI benefits, it became necessary to base projections of trust fund experience on dynamic economic assumptions; i.e., assuming increases in inflation and wage levels in order to reflect more accurately the future rise in benefit levels and the wage base that would occur automatically. Retaining the old system of static economic assumptions could have resulted in underestimating program costs and revenues. However, use of dynamic assumptions in conjunction with a fully indexed benefit structure means that projections of program experience are much more difficult to make accurately, because the benefit levels and trust fund income as well as every set of economic assumptions are highly sensitive to changing economic conditions, particularly near-term fluctuations.

Compounding this difficulty in predicting economic patterns was an unintended effect of the way automatic benefit increases were applied to existing and new benefits, which caused benefits to increase much more rapidly, in comparison to pre-retirement earnings, than had been anticipated. Thus, at the same time as the economy was performing more poorly than had been predicted, it was realized that benefits would rise with the automatic provisions more rapidly than anticipated. Beginning with its report of 1973, the Social Security Board of Trustees repeatedly forecast an adverse financial situation for the program both in the near term (late 1970's and early 1980's) and the long run, i.e., until the middle of the next century. The short-term forecast of the 1977 Trustees' Report showed DI fund reserves falling to zero in late 1978, and OASI reserves being used up by 1983; the same report showed a long-term deficit for OASDI (over the 75-year period) of 8.2 percent of taxable payroll, which represented an average shortfall in revenues of more than 40 percent of the costs of the program.

Effect of the 1977 amendments

As a result of these projections the Congress enacted the 1977 amendments, which improved forecasts of the financial condition of the program significantly. At the time of enactment, the Social Security actuaries projected that the OASDI program would be in a surplus position through the next 25-year period. The improved short-run outlook was brought about by legislated changes on the revenue side, estimated at that time to add some $80 billion in new revenues to the OASDI programs in the 1978–83 period, as well as changes in benefits resulting in net reductions of outgo of $7.5 billion during that same period.

The revenue increases were the result of: (1) ad hoc increases in the taxable earnings base above the increases that would have occurred automatically; (2) a reallocation to OASDI of a portion of the already scheduled increases in the HI tax rate; (3) increases in the overall OASDI tax rate beginning in 1979; and (4) increases in the self-employment tax rate bringing it up to 1½ times the employee rate. The principal benefit changes affecting outgo included (among other provisions): (1) revamping of the OASDI benefit formula to eliminate overcompensation for inflation in the future—referred to as the "decoupling" provisions; (2) correction of a major technical flaw in computing benefit increases for early retirees; and (3) elimination of retroactive benefits in cases where reduced benefits would result. According to the estimates at the time the 1977 amendments were adopted, the amendments improved the long-range financial condition by reducing the projected deficit to 1.46 percent of taxable payroll, only a fraction of the 8.2 percent deficit projected before the amendments.

While the 1977 amendments included major future tax increases and a 25-percent reduction in future benefits, the full effect of these changes was delayed until 1981 and later. (For example, from 1978 through 1980, less than $17 billion in new revenues were realized as a result of the 1977 amendments, mainly from the ad hoc increases in the wage base, since the major tax increases were scheduled for 1981 and later.) At the time the amendments were enacted, it was known that the safety margin provided in the early years would not be very great, but the system at that point had reserves of $40 billion, which were thought to be sufficient to insure benefit payments until the additional revenues from the major tax increases could be realized.

However, economic conditions since 1977 proved to be substantially worse than previously predicted, as indicated in table 6; each percentage point in the CPI increase costs the trust funds about $1.5 billion, so that the 1980 increase alone cost about $13 billion more than predicted. As a result, benefit increases raised trust fund outlays beyond expectations at precisely the time real wages were declining and unemployment was increasing, so that revenues did not keep pace with outlays. During this period, therefore, trust fund reserves as a percentage of yearly benefit outlays declined.

TABLE 6.—COMPARISON OF ESTIMATED AND ACTUAL KEY ECONOMIC INDICATORS, 1977 FORECAST [1]

[Key economic indicators (in percent)]

Calendar year	CPI increase		Real wage differential		Unemployment rate	
	Estimated	Actual	Estimated	Actual	Estimated	Actual
1977	6.0	6.5	2.4	0.4	7.1	7.0
1978	5.4	7.6	2.7	0.5	6.3	6.0
1979	5.3	11.5	2.5	−2.7	5.7	5.8
1980	4.7	13.5	2.4	−4.9	5.2	7.1
1981	4.1	10.3	2.3	−1.6	5.0	7.6

[1] The 1977 forecast was based on the intermediate set of assumptions in the 1977 trustees' report.

Source: Ways and Means Committee Print, 96–75.

Impact of the 1980, 1981, and 1982 amendments

Tables 7 and 8 show the effects of legislation from 1980 to 1982 on the financial status of the social security programs.

TABLE 7.—ORIGINAL SHORT-RANGE ESTIMATES OF REDUCTION IN OASDI AND HI BENEFIT PAYMENTS DUE TO AMENDMENTS OF 1980, THE OMNIBUS RECONCILIATION ACT OF 1981, AND THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

[In billions]

Calendar years	Estimates of net reduction in benefit payments, made at time of enactment, resulting from each set of amendments [1]			
	1980 amendments [2]	1981 reconciliation	1981 minimum benefit restoration bill	1982 Tax Act
1981	$0.2	$0.1		
1982	.7	3.5	−$0.9	
1983	1.1	4.7	−1.3	$0.8
1984	1.4	5.8	−1.3	1.9
1985	1.8	6.4	−1.3	3.7
1986	2.2	6.9	−1.3	4.7

[1] Figures do not add across because the assumptions underpinning each set of amendments were different from one another. In addition, these estimates were made at the time of enactment and have not been individually re-evaluated since that time. Negative figures represent increases in benefit payments.

[2] Figures represent the sums of the estimates made for Public Law 96–265 (the Social Security Disability Amendments of 1980), Public Law 96–473, and Public Law 96–499 (the Omnibus Reconciliation Act of 1980).

TABLE 8.—ADDITIONAL TAX INCOME IN 1982 TO 1990 TO THE OASDHI PROGRAMS DUE TO PUBLIC LAW 97–123, AND TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

[In billions]

Calendar year	Additional tax income	
	Public Law 97–123	Tax Act of 1982
1982	$0.6	
1983	.7	$1.6
1984	.7	1.9
1985	.8	2.2
1986	.9	2.6
1987	1.0	2.8
1988	1.0	3.0
1989	1.1	3.3
1990	1.3	3.7
1980–1990	8.1	21.2

Note: Based on the 1982 Trustees' Report Intermediate (II–B) economic assumptions.

IMPACT OF THE SOCIAL SECURITY AMENDMENTS OF 1983

Tables 9 and 10 show the additional income and outlay reductions to the combined OASDI and HI trust funds respectively under alternative II-B assumption. From 1983 to 1989, the actuaries estimate that the OASDI fund has additional financing of $166.2 billion as a result of the Social Security Amendments of 1983. The HI fund has additional financing of $33.6 billion.

TABLE 9.—ESTIMATED AMOUNTS OF CHANGES IN OASDI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98-21, BASED ON 1983 ALTERNATIVE II-B ASSUMPTIONS, CALENDAR YEARS 1983-89

[In billions of dollars]

Provision	Calendar year—							Total, 1983-89
	1983	1984	1985	1986	1987	1988	1989	
Increase tax rate on covered wages and salaries		8.6	0.3			14.5	16.0	39.4
Increase tax rate on covered self-employment earnings		1.1	3.1	3.0	3.2	3.7	4.4	18.5
Cover all Federal elected officials and political appointees		(¹)	(¹)	(¹)	(¹)	(¹)	(¹)	.1
Cover new Federal employees		.2	.7	1.2	1.8	2.4	3.1	9.3
Cover all nonprofit employees		1.3	1.5	1.8	2.1	2.6	3.0	12.4
Total for new coverage		1.5	2.2	3.0	3.9	5.0	6.1	21.8
Prohibit State and local government terminations		.1	.2	.4	.6	.8	1.1	3.2
Accelerate collection of State and local taxes		.6	(¹)	(¹)	.1	.1	.1	1.0
Modify general fund financing basis for non-contributory military service credits	18.4	−.4	−.4	−.3	−.4	−.4	−.4	16.1
Provide reimbursements from general fund for unnegotiated checks	1.3	.1	.1	.1	.1	.1	.1	1.6
Delay benefit increases 6 months	3.2	5.2	5.4	5.5	6.2	6.7	7.3	39.4
Continue benefits on remarriage		(²)	(²)	(²)	(²)	(²)	(²)	−.1
Modify indexing of deferred survivors' benefits			(²)	(²)	(²)	(²)	(²)	(²)
Raise disabled widow(er)'s benefits to 71.5 percent of PIA		−.2	−.2	−.2	−.2	−.3	−.3	−1.4
Pay divorced spouses whether or not worker has retired			(²)	(²)	(²)	(²)	(²)	−.1
Replace 90-percent factor in benefit formula with variable percentage, for individuals receiving pensions from noncovered employment				(³)	(³)	(³)	.1	.1
Offset spouses benefits by up to two-thirds of noncovered Government pension	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)
Expand use of death certificates to stop benefits	(³)	(³)	(³)	(³)	(³)	(³)	(³)	.1

TABLE 9.—ESTIMATED AMOUNTS OF CHANGES IN OASDI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98–21, BASED ON 1983 ALTERNATIVE II–B ASSUMPTIONS, CALENDAR YEARS 1983–89—Continued

[In billions of dollars]

Provision	Calendar year—							Total, 1983–89
	1983	1984	1985	1986	1987	1988	1989	
Impose 5-year residency requirement for certain aliens			([3])	([3])	([3])	([3])	([3])	.1
Tax one-half of benefits for high income beneficiaries		2.6	3.2	3.9	4.7	5.6	6.7	26.6
All other miscellaneous and technical changes	([2])	([2])	([2])	([2])	([2])	([2])	([2])	–.1
Total for all changes	22.8	19.2	13.9	15.3	18.0	35.8	41.2	166.2

[1] New additional taxes of less than $50 million.

[2] Additional benefits of less than $50 million.

[3] Reduction in benefits of less than $50 million.

Note: Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reductions in benefits. Negative figures represent reductions in income or increases in benefits.

Source: Office of the Actuary, Social Security Administration.

TABLE 10.—ESTIMATED AMOUNTS OF CHANGES IN HI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98-21, BASED ON 1983 ALTERNATIVE II-B ASSUMPTIONS, CALENDAR YEARS 1983-89

[In billions of dollars]

Provision	Calendar year—							Total, 1983-89
	1983	1984	1985	1986	1987	1988	1989	
Provide for prospective hospital reimbursement [1]			0.2	2.0	3.6	5.2	7.0	18.0
Delay single reimbursement rate for nursing facilities	(2)	(2)						(2)
Reduce allowable return on equity	(3)	.1	.1	.1	.1	.1	.2	.7
Increase tax rate on covered self-employment earnings		.4	1.3	1.5	1.6	1.7	1.8	8.3
Cover all Federal elected officials and political appointees	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Cover all nonprofit employees		.3	.4	.5	.5	.6	.7	3.0
Prohibit State and local government terminations		(4)	.1	.1	.1	.2	.3	.8
Accelerate collection of State and local taxes		.2	(4)	(4)	(4)	(4)	(4)	.2
Modify general fund financing basis for noncontributory military service credits	3.3	−.1	−.1	−.1	−.1	−.1	−.1	2.5
Total for HI changes	3.3	.8	1.9	4.1	5.9	7.8	9.8	33.6

---

[1] Savings attributable to prospective payments were computed as the additional savings which would be generated in fiscal year 1986 and later by eliminating the October 1985 sunset provision on the hospital rate-of-increase limits of sec. 101(b) of the Tax Equity and Fiscal Responsibility Act of 1982. The prospective payment legislation as passed by Congress does not mandate a system which would necessarily generate this level of savings. Instead, the level of prospective payment rates is left to the discretion of the Secretary of HHS.

[2] Additional benefit of less than $50,000,000.

[3] Reduction in provider reimbursement of less than $50,000,000.

[4] Net additional tax income of less than $50,000,000.

Note: Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reductions in benefits. Negative figures represent reductions in income or increases in benefits.

Source: Office of the Actuary, Health Care Financing Administration.

CURRENT SHORT-RANGE STATUS OF THE TRUST FUNDS

An assessment of the status of the trust funds depends heavily on the economic assumptions underlying the estimates, because the level of revenue and benefit payments in the OASDHI system are so directly dependent on economic factors such as general inflation, increases in health care costs, and wage growth. Traditionally, the social security trustees have used three paths to estimate the short-range status of the trust funds: an optimistic, a pessimistic, and an intermediate path. Beginning with the 1982 trustees' report, an additional path was presented: an "intermediate II-A" which modifies the usual intermediate path to reflect the somewhat more optimistic economic outlook forecasted by the administration.

Table 11 summarizes the key economic assumptions contained in President Reagan's fiscal year 1986 budget and compares them with the assumptions underlying CBO's baseline January 1985 forecast, and CBO's "high growth" and "low growth" forecasts. Tables 12 through 15 summarize the estimated operations of the OASDHI trust funds for the years 1985 through 1990 under these sets of assumptions.

TABLE 11.—COMPARISON OF THE ECONOMIC ASSUMPTIONS UNDERLYING TRUST FUND PROJECTIONS BASED ON PRESIDENT REAGAN'S 1986 BUDGET AND CBO'S BASELINE JANUARY 1985 ESTIMATES

	1984	1985	1986	1987	1988	1989	1990
Percent change in real GNP:							
President's budget	6.8	3.7	4.0	4.0	4.0	3.9	3.6
CBO baseline	6.8	3.5	3.2	3.3	3.4	3.4	3.4
CBO low growth	6.8	2.7	2.8	−1.8	−0.1	4.7	3.8
CBO high growth	6.8	4.0	4.8	4.5	4.6	4.6	4.6
Civilian unemployment rate:							
President's budget	7.5	7.1	6.9	6.7	6.4	6.2	5.9
CBO baseline	7.5	7.1	6.9	6.7	6.6	6.4	6.2
CBO low growth	7.5	7.4	7.3	9.0	10.1	9.2	8.7
CBO high growth	7.5	6.9	6.3	5.8	5.4	5.1	4.7
Percent change in CPI–U:							
President's budget	4.3	4.1	4.3	4.2	3.9	3.6	3.3
CBO baseline	4.3	3.7	4.5	4.2	4.2	4.2	4.2
CBO low growth	4.3	3.7	4.4	3.7	2.8	2.2	2.3
CBO high growth	4.3	3.7	4.7	5.1	6.2	7.4	9.0

Source: Fiscal Year 1986 Budget, and Congressional Budget Office.

The CBO and administration estimates differ for several important reasons. First, the underlying economic assumptions are different. Second, the administration estimates incorporate into current law the budget proposals for HI which will be implemented by regulation. These include the assumption that prospective payment rates for fiscal year 1986 would be frozen at the level for 1985. Third, CBO incorporates the actual interfund borrowing repayments to HI on January 31, 1985, into trust fund income. The administration numbers reflect these transfers only in the trust fund balance and the 1985 transfer will be $424 million higher than shown. Fourth, the administration assumes that the DRG rates after 1986 will be increased at a rate equal to market basket. The CBO assumes DRG rates will increase at market basket inflation plus 0.25 percent.

TABLE 12.—ESTIMATED OPERATION OF THE OASI, DI, HI AND OASDHI TRUST FUNDS BASED UPON PRESIDENT'S 1986 BUDGET ASSUMPTIONS

[In billions of dollars]

	Fiscal year—					
	1985	1986	1987	1988	1989	1990
Old age and survivors insurance:						
Outlays	171.1	182.0	195.0	208.3	222.0	236.1
Income	179.4	192.7	209.7	240.8	266.3	292.8
Year-end balance	32.5	36.9	43.8	76.2	120.5	177.2
Start-of-year balance (as percent of outlays)	22	25	26	28	42	59
Disability insurance:						
Outlays	19.9	20.4	21.2	22.2	23.4	24.6
Income	17.9	18.9	20.2	23.0	25.2	29.9
Year-end balance	4.6	4.6	5.2	6.0	7.8	13.1
Start-of-year balance (as percent of outlays) [1]	28	28	28	30	32	39
Combined OASI and DI:						
Outlays	191.0	202.3	216.1	230.5	245.4	260.8
Income	197.3	211.5	229.9	263.8	291.5	322.7
Year-end balance	37.1	41.5	49.0	82.2	128.4	190.3
Start-of-year balance (as percent of outlays) [1]	23	25	26	28	41	57
Hospital insurance:						
Outlays	48.9	49.4	53.3	58.9	65.0	71.6
Income	51.3	57.5	63.5	69.7	75.2	81.1
Year-end balance	21.0	33.8	50.3	61.1	71.2	80.7
Start-of-year balance (as percent of outlays)	35	42	64	85	94	99
Combined OASI, DI, and HI:						
Outlays	239.9	251.7	269.4	289.4	310.4	332.4
Income	248.6	269.0	293.4	333.4	366.6	403.8
Year-end balance	58.1	75.4	99.3	143.3	199.6	271.0
Start-of-year balance (as percent of outlays) [1]	25	28	33	40	52	66

[1] Assets at beginning of year are defined for the OASI and DI trust funds as assets at end of prior year plus the respective OASI and DI advance tax transfers for October.

Source: Office of the Actuary, Social Security Administration and Office of the Actuary, Health Care Financing Administration.

TABLE 13.—ESTIMATED OPERATIONS OF THE OASI, DI, OASDI, HI, AND OASDHI TRUST FUNDS BASED UPON CBO 1986 BASELINE BUDGET ASSUMPTIONS

[In billions of dollars]

	1985	1986	1987	1988	1989	1990
Old age and survivors insurance:						
Outlays	171.8	181.5	193.5	207.0	220.7	235.6
Income [1]	177.4	187.1	200.7	235.5	258.4	284.2
Year-end balance	33.2	38.8	45.9	74.4	112.1	160.8
Start-of-year balance, as percent of outlays [2]	23.7	25.9	27.7	29.9	41.8	55.8
Disability insurance:						
Outlays	19.3	20.0	20.9	21.8	22.7	23.6
Income [1]	20.4	20.3	21.0	22.5	24.5	29.1
Year-end balance	5.7	6.0	6.1	6.8	8.6	14.1
Start-of-year balance, as percent of outlays [2]	30.6	35.3	35.6	35.0	37.6	44.3
Combined OASI and DI:						
Outlays	191.1	201.5	214.4	228.7	243.3	259.2
Income [1]	197.8	207.4	221.6	258.0	282.9	313.3
Year-end balance	38.9	44.8	52.0	81.3	120.8	174.8
Start-of-year balance, as percent of outlays [2]	24.4	26.8	28.5	30.4	41.4	54.8
Hospital insurance:						
Outlays	47.9	51.5	56.9	63.0	69.8	77.4
Income [1]	53.1	62.5	68.4	67.3	71.6	76.7
Year-end balance	22.3	33.3	44.8	49.2	51.0	50.2
Start-of-year balance, as percent of outlays	35.9	43.4	58.6	71.2	70.4	65.8
Combined OASI, DI, and HI:						
Outlays	239.0	253.0	271.3	291.7	313.2	336.6
Income [1]	250.9	269.9	290.0	325.3	354.5	390.0
Year-end balance	61.3	78.1	96.8	130.4	171.7	225.1
Start-of-year balance, as percent of outlays [2]	26.7	30.2	34.8	39.2	47.9	57.3

[1] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances, and certain general fund transfers. In addition, it also reflects the interfund borrowing repayments from OASI to HI—$1,824 million in 1985, $4,800 million in 1986, and $5,813 million in 1987—and from OASI to DI—$2,540 million in 1985, $1,500 million in 1986, and $1,041 million in 1987.

[2] Start-of-year balances for OASI and DI are computed as the balances at the end of the previous year plus normalized tax transfers at the beginning of the year. Trust fund balances include any borrowed amounts from the other trust funds.

Note: Columns may not add due to rounding.

Source: Congressional Budget Office. Based on CBO's January 1985 baseline economic assumptions.

TABLE 14.—ESTIMATED OPERATIONS OF THE OASI, DI, OASDI, HI, AND OASDHI TRUST FUNDS BASED UPON CBO 1985 LOW GROWTH BUDGET ASSUMPTIONS

[In billions of dollars]

	1985	1986	1987	1988	1989	1990
Old age and survivors insurance:						
Outlays	171.8	181.6	193.6	206.6	213.5	227.4
Income [1]	176.4	186.0	194.7	216.4	231.6	248.3
Year-end balance	32.2	36.5	37.5	47.3	65.4	86.3
Start-of-year balance, as percent of outlays [2]	23.7	22.8	20.9	16.9	21.6	28.6
Disability insurance:						
Outlays	19.3	20.0	20.9	21.7	21.9	22.7
Income [1]	20.3	20.2	20.4	20.8	21.9	25.4
Year-end balance	5.6	5.8	5.3	4.4	4.5	7.2
Start-of-year balance, as percent of outlays [2]	30.6	34.7	34.5	31.0	27.4	27.0
Combined OASI and DI:						
Outlays	191.1	201.7	214.5	228.3	235.4	250.1
Income [1]	196.7	206.1	215.1	237.2	253.6	273.7
Year-end balance	37.8	42.3	42.8	51.7	69.8	93.5
Start-of-year balance, as percent of outlays [2]	24.4	26.2	27.2	25.9	29.5	35.4
Hospital insurance:						
Outlays	47.9	51.4	56.5	61.3	66.3	71.8
Income [1]	52.9	62.2	66.7	62.3	64.7	67.5
Year-end balance	22.1	32.9	43.1	44.1	42.5	38.3
Start-of-year balance, as percent of outlays	35.9	42.9	58.2	70.3	66.5	59.2
Combined OASI, DI, and HI:						
Outlays	239.0	253.1	271.0	289.6	301.7	321.9
Income [1]	249.5	268.4	281.8	299.5	318.3	341.3
Year-end balance	59.9	75.1	85.9	95.8	112.4	131.8
Start-of-year balance, as percent of outlays [2]	26.7	29.6	33.7	35.3	37.7	40.7

[1] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances, and certain general transfers. In addition, it also reflects the interfund borrowing repayments from OASI to HI—$1,824 million in 1985, $4,800 million in 1986, and $5,813 million in 1987—and from OASI to DI—$2,540 million in 1985, $1,500 million in 1986, and $1,041 million in 1987.

[2] Start-of-year balances for OASI and DI are computed as the balances at the end of the previous year plus normalized tax transfers at the beginning of the year. Trust fund balances include any borrowed amounts from the other trust funds.

Note: Columns may not add due to rounding.

Source: Congressional Budget Office. Based on CBO's January 1985 low growth economic assumptions.

TABLE 15.—ESTIMATED OPERATIONS OF THE OASI, DI, OASDI, HI, AND OASDHI TRUST FUNDS BASED UPON CBO 1985 HIGH GROWTH BUDGET ASSUMPTIONS

[In billions of dollars]

	1985	1986	1987	1988	1989	1990
Old age and survivors insurance:						
Outlays	171.8	181.5	193.7	208.7	226.2	248.1
Income [1]	177.2	189.0	206.4	247.3	279.7	322.2
Year-end balance	33.0	40.5	53.2	91.8	145.3	219.5
Start-of-year balance (as percent of outlays) [2]	23.7	25.8	28.7	33.4	48.9	67.1
Disability insurance:						
Outlays	19.3	20.0	20.9	22.0	23.3	24.9
Income [1]	20.4	20.5	21.4	23.6	26.5	33.0
Year-end balance	5.7	6.2	6.7	8.3	11.7	19.8
Start-of-year balance (as percent of outlays) [2]	30.6	35.2	36.4	38.0	43.9	55.0
Combined OASI and DI:						
Outlays	191.7	201.5	214.6	230.6	249.5	273.0
Income [1]	197.5	209.5	227.9	270.9	306.3	355.3
Year-end balance	38.7	46.7	59.9	100.2	157.0	239.2
Start-of-year balance (as percent of outlays) [2]	24.4	26.7	29.5	33.9	48.4	66.0
Hospital insurance:						
Outlays	47.9	51.6	57.5	64.7	73.6	85.0
Income [1]	53.1	63.1	70.0	70.4	77.1	86.2
Year-end balance	22.3	33.7	46.2	51.9	55.4	56.7
Start-of-year balance (as percent of outlays)	35.9	43.2	58.7	71.5	70.6	65.3
Combined OASI, DI, and HI:						
Outlays	239.0	253.1	272.1	295.3	323.0	358.0
Income [1]	250.6	272.5	297.8	341.3	383.4	441.5
Year-end balance	61.0	80.4	106.2	152.1	212.5	296.0
Start-of-year balance (as percent of outlays) [2]	26.7	30.1	35.6	42.1	53.5	65.9

---

[1] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances, and certain general fund transfers. In addition, it also reflects the interfund borrowing repayments from OASI to HI—$1,824 million in 1985, $4,800 million in 1986, and $5,813 in 1987—and from OASI to DI—$2,540 million in 1985, $1,500 million in 1986, and $1,041 million in 1987.

[2] Start-of-year balances for OASI and DI are computed as the balances at the end of the previous year plus normalized tax transfers at the beginning of the year. Trust fund balances include any borrowed amounts from the other trust funds.

Note: Columns may not add due to rounding.

Source: Congressional Budget Office. Based on CBO's January 1985 high growth economic assumptions.

TABLE 16.—SUMMARY COMPARISON OF COMBINED OASDI AND OASDHI TRUST FUND BALANCES UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS

[In billions of dollars]

End-of-year balances	Fiscal year—					
	1985	1986	1987	1988	1989	1990
Combined OASDI:						
Administration	37.1	41.5	49.0	82.2	128.4	190.3
CBO baseline	38.9	44.8	52.0	81.3	120.8	174.8
CBO low growth	37.8	42.3	42.8	51.7	69.8	93.5
CBO high growth	38.7	46.7	59.9	100.2	157.0	239.2
Hospital insurance:						
Administration	21.0	33.8	50.3	61.1	71.2	80.7
CBO baseline	22.3	33.3	44.8	49.2	51.0	50.2
CBO low growth	22.1	32.9	43.1	44.1	42.5	38.3
CBO high growth	22.3	33.7	46.2	51.9	55.4	56.7
Combined OASDHI:						
Administration	58.1	75.4	99.3	143.3	199.6	271.0
CBO baseline	61.3	78.1	96.8	130.4	171.7	255.1
CBO low growth	59.9	75.1	85.9	95.8	112.4	131.8
CBO high growth	61.0	80.4	106.2	152.1	212.5	296.0

TABLE 17.—SUMMARY COMPARISON OF COMBINED OASDI AND OASDHI TRUST FUND BALANCES AS A PERCENT OF OUTLAYS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS

[In billions of dollars]

Start-of-year balance (as percent of outlays)[1]	Fiscal year—					
	1985	1986	1987	1988	1989	1990
Combined OASDI:						
Administration	23	25	26	28	41	57
CBO baseline	24	27	28	30	41	55
CBO low growth	24	26	27	26	29	35
CBO high growth	24	27	29	34	48	66
Hospital insurance:						
Administration	35	42	64	85	94	99
CBO baseline	36	43	59	71	70	66
CBO low growth	36	43	58	70	66	59
CBO high growth	36	43	59	71	71	65
Combined OASDHI:						
Administration	25	28	33	40	52	66
CBO baseline	27	30	35	39	48	57
CBO low growth	27	30	34	35	38	41
CBO high growth	27	30	36	42	54	66

[1] The balance at the start of the year is higher than the balance at the end of the year by the amount of the normalized revenue transfers. Trust fund balances include any borrowed amounts from other trust funds. Outlays follow OMB budget accounting methods, which include interest payments for the interfund borrowing and for normalized revenue transfers from the Treasury.

Status of OASDI trust fund

Under the President's budget as well as under all three sets of CBO assumptions, the combined OASDI trust funds will continue the growth begun in 1984, at a relatively slow rate through 1987. Beginning in 1988, when the second accelerated increase in the tax rates occurs, the trust funds are expected to grow more rapidly. A one-year drop in the reserves of the disability trust funds in 1985 reflects the administration's estimates of the cost attributable to new mental impairment criteria, and to a reduction in the number of beneficiaries whose benefits will be terminated. Throughout the 1990's, and for some period into the next century, the favorable demographic pattern of a large baby-boom generation at peak earning years combined with the retirement of the relatively small generation born during the depression should insure large trust fund reserves.

For the combined OASDI funds, under the President's budget assumptions, the trust fund ratio is estimated to decrease from 24 percent at the beginning of 1984 to 23 percent for 1985, and then increase each year thereafter. Under CBO baseline assumptions the combined OASDI fund ratio is estimated to increase from 24.0 percent at the beginning of 1984 to 24.4 percent by 1985, and 26.8 percent by 1986, with steady increases each year afterward. This increase includes, in the balance at the beginning of each fiscal year, the tax receipts for October which are to be transferred on the first day of the month under the provision for advance transfer of taxes to the trust funds.

The amounts transferred to the OASI trust fund from the HI and DI trust funds in 1982 under the interfund borrowing authority provided by Public Law 97-123, which was signed into law on December 29, 1981 are shown in table 18. The amounts that are assumed to be repaid in each future year, in accordance with provisions in Public Law 98-21, are also shown. As noted earlier, the administration projections are based upon a slightly different repayment schedule. It should be noted that the outstanding loan amounts are included in the OASI trust fund balances (and reflected in the OASI trust fund ratios), while the amounts of outstanding loans from the DI trust fund are excluded from the DI trust fund balance (with such exclusion reflected in the DI trust fund ratios).

TABLE 18.—INTERFUND BORROWING TRANSFERS ESTIMATED ON THE BASIS OF THE PRESIDENT'S FISCAL YEAR 1986 ASSUMPTIONS, FISCAL YEARS 1982–1987

[Dollar amounts in billions]

Fiscal year	Interfund borrowing transfers [1]		
	OASI	DI	HI
1982	$17.5	−$5.1	−$12.4
1983			
1984			
1985	−4.364	2.540	1.824
1986	−6.300	1.500	4.800
1987 [2]	−6.854	1.041	5.813

[1] Positive figures represent amounts borrowed by the trust fund or recoveries of prior loans to other trust funds; negative figures represent amounts loaned by the trust fund or repayments of prior loans from other trust funds.

[2] As of 1987 transfers, repayment of earlier loans is complete.

Status of the HI trust fund

The projections shown in tables 12–15 for the hospital insurance component of medicare are particularly uncertain after 1985 because of uncertainties concerning future hospital payments. The Social Security Amendments of 1983 instituted a prospective payment system for inpatient hospital services. For 1984 and 1985, the Social Security Amendments gave explicit guidance concerning the setting of the DRG rates.

During the first two years of the new prospective payment system, the DRG rates were to be budget neutral. The Deficit Reduction Act of 1984 established a maximum cap on the rate of increase of DRG rates in 1986. After 1986, the DRG rates are to be set by the Secretary of Health and Human Services, advised by an independent commission. For 1987–1990 the baseline assumes that DRG rates will grow by 0.25 percentage points more than the increase in the cost of a market basket of goods and services typically purchased by hospitals. In addition, hospital insurance outlays also rise with projected increases in eligible beneficiaries and hospital utilization. See section 4 for a more complete description of the assumption underlying the HI estimates as well as alternative projections.

LONG RANGE STATUS OF THE TRUST FUNDS

OASDI trust funds

Because the social security program has been designed as a contributory system in which those who pay the taxes supporting it are considered to be earning the right to future benefits, Congress has traditionally required long-range estimates of the program's actuarial balance and has set future tax rates with a view to assuring that the income of the program will be sufficient to cover its outgo. Under current procedures, the long-range actuarial analysis of the cash benefits program covers a 75-year period—this would generally be long enough to cover the anticipated retirement years of those currently in the work force.

The long-range status of the social security trust funds is ordinarily expressed in terms of "percent of taxable payroll" rather than in dollar amounts. This permits a direct comparison between the tax rate actually in the law and the cost of the program. For example, if the program is projected to have a deficit of "1 percent of taxable payroll," this means that the social security tax rates now in the law would have to be increased by 0.5 percent points for employee and employer, each, in order to pay for the benefits due under present law. (Alternatively, the program could be brought back into balance by an equivalent reduction in benefit outgo or by a combination of revenue increases and outgo reductions.) If the program is projected to have a deficit of 1.5 percent of taxable payroll and expenditures are projected to be 10 percent of taxable payroll, then, under the given set of assumptions, 15 percent (1.5 divided by 10) of expenditures could not be met with that tax schedule. At the present time, the total taxable payroll amounts to approximately 1.4 trillion so that in 1985 terms, 1.5 percent of payroll represents about $21 billion.

In the short range, the financial soundness of each of the trust funds can be assessed by considering the size of the trust fund balance, in absolute terms and as a percentage of the annual expenditures, and whether the balance is growing or declining. In the long range, the traditional measure of financial soundness has been the actuarial balance of the system. The actuarial balance is defined as the difference between the total income rate and the cost rate. If the average income rate is between 95 percent and 105 percent of the average cost rate, over the 75-year long-range projection period, the system is said to be in close actuarial balance.

The long-range financial condition of the social security programs will be determined by three types of long-range factors: demographic factors such as rates of fertility, life expectancy, and labor force participation which determine how many workers there will be in the society in relation to non-working beneficiaries; economic factors such as unemployment, productivity, and inflation; and social security program factors, such as benefit levels, total number of covered workers, and percent of eligible workers drawing early retirement benefits.

It is clear that these factors cannot be predicted with any certainty as far into the future as 75 years, and the long-range projections should not be taken as absolute predictions of deficits or surpluses in the funds.

The estimated effects of the various provisions in Public Law 98-21 on the long-range actuarial balance of the OASDI program are shown in table 19. It may be observed from this table that the long-range OASDI actuarial deficit of 2.09 percent of taxable payroll, that was estimated under the old law, was eliminated by the 1983 amendments. The 1984 Trustees' Report shows a 0.06 75-year deficit, which is considered to put the trust funds within close actuarial balance.

TABLE 19.—ESTIMATED LONG-RANGE OASDI COST EFFECT OF THE SOCIAL SECURITY AMENDMENTS OF 1983 (PUBLIC LAW 98–21)

Section	Provision	Effect, as percent of taxable payroll		
		OASI	DI	OASDI
	Old law:			
	Average cost rate	13.04	1.34	14.38
	Average tax rate	10.13	2.17	12.29
	Actuarial balance	−2.92	+.83	−2.09
	Changes included in titles I and III: [1]			
101	Cover new Federal employees	+.26	+.02	+.28
102	Cover all non-profit employees	+.09	+.01	+.10
103	Prohibit State and local termination	+.06	+.00	+.06
111	Delay benefiter increases 6 months	+.28	+.03	+.30
113	Eliminate "windfall" benefits	+.04	+.00	+.04
114	Increase delayed retirement credits	−.10	...	−.10
121	Taxation of benefits	+.56	+.05	+.61
123	Accelerate tax rate increase	+.03	...	+.03
124	Increase tax rate on self-employment	+.17	+.02	+.19
124	Adjust self-employment income	−.02	−.00	−.03
125	Change DI tax rate allocation	+.81	−.81	...
131	Continue benefits on remarriage	−.00	−.00	−.00
132	Pay divorced spouses of non-retired workers	−.01	−.00	−.01
133	Modify indexing of widow(er) benefits	−.05	...	−.05
134	Raise disabled widow(er)'s benefits	−.01	...	−.01
151	Modify military credits financing	+.01	+.00	+.01
152	Reimburse unnegotiated checks	+.00	+.00	+.00
324	Tax certain salary reduction plans	+.03	+.00	+.03
337	Modify public pension offset	−.00	−.00	−.00
340	Suspend auxiliary benefits for certain aliens	+.00	+.00	+.00
348	Modify earnings test at ages 65 and over [2]	−.01	...	−.01
	All other provisions of Titles I and III	−.00	−.00	−.00
	Subtotal for the effect of the above provisions [3]	+2.07	−.68	+1.38
	Remaining deficit after the above provisions	−.85	+.15	−.71
	Additional change relating to long-term financing (Title II of the amendments): [4]			
201	Raise normal retirement age to 67	+.83	−.12	+.71
	Total effect of all of the provisions [5]	+2.89	−.80	+2.09
	New law:			
	Actuarial balance	−.03	+.03	−.00
	Average income rate	11.47	1.42	12.89
	Average cost rate	11.50	1.39	12.89

---

[1] The values for each of the individual provisions listed from Title I and Title III represent the effect over old law and do not take into account interaction with other provisions, with the exception of Section 348.

[2] Estimates for modifying the earnings test take into account interaction with Section 114, which increases delayed retirement credits.

[3] The values in the subtotal for all provisions included in Title I and Title III take into account the estimated interactions among these provisions.

[4] The values take into account interaction with the provisions included in Title I and Title III.

[5] The values for the total effect of the amendments take into account interactions among all provisions.

Note: The above estimates are based on the 1983 alternative II–B assumptions. Individual estimates may not add to totals due to rounding and/or interaction amount proposals.

Table 20 shows a comparison of the estimated cost rate with the estimated income rate for selected years from 1984 through 2060. As indicated previously, the income rate is the sum of the scheduled tax rate and the income from taxation of benefits expressed as a percentage of taxable payroll. The scheduled tax rates for employees and employers, combined, are:

[In percent]

Calendar year	OASI	DI	Total
1983	9.55	1.25	10.80
1984–85	10.40	1.00	11.40
1986–87	10.40	1.00	11.40
1988–89	11.06	1.06	12.12
1990–99	11.20	1.20	12.40
2000 and later	10.98	1.42	12.40

Table 20 shows that, on the basis of the 1984 alternative II–B assumptions, estimated income will exceed the estimated cost of the program through the second decade of the next century. After the year 2020, income from scheduled payroll taxes and from the taxation of benefits will not be large enough to cover estimated annual costs, although the accumulated trust fund balance will be sufficient to allow the program to continue operating satisfactorily for many years. The average actuarial balances are estimated to be a surplus of 2.01 percent of taxable payroll for the first 25 years of the long-range projection period and a deficit of 0.05 percent for the second 25 years. The surplus is offset by an estimated deficit of 2.14 percent of taxable payroll in the third 25-year period of the 75-year projection period.

Table 21 shows the estimates of OASI and DI trust fund ratios under the amended program for each year from 1981 through 2060. As a percent of annual expenditures, the combined assets of the OASI and DI trust funds are estimated to grow until the latter part of the second decade in the next century, reaching levels of about 540 percent of annual expenditures. Thereafter, the combined trust fund ratios decline steadily to less than 50 percent by 2059, with the DI fund becoming exhausted by 2052.

The trust fund ratio for OASI exhibits a similar pattern—increasing to about 565 percent in the second decade of the next century and declining thereafter to less than 25 percent by 2060. The DI trust fund increases to about 350 percent of annual expenditures by the first decade of the next century and declines to exhaustion by the year 2052.

TABLE 20.—ESTIMATED LONG-RANGE OASDI ANNUAL COST RATE, INCOME RATE, AND ACTUARIAL BALANCE UNDER THE PROGRAM BASED ON ALTERNATIVE II–B OF 1984 TRUSTEES' REPORTS

[Percent of taxable payroll]

Year	Cost rate			Income rate			Actuarial balance [1]		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
1984	10.17	1.15	11.32	10.58	1.01	11.59	+0.41	−0.14	+0.27
1985	10.06	1.09	11.15	10.59	1.01	11.60	+0.53	−0.07	+0.45
1986	10.03	1.05	11.08	10.60	1.01	11.62	+0.58	−0.04	+0.54
1987	10.04	1.03	11.06	10.62	1.01	11.63	+0.58	−0.02	+0.57
1988	10.04	1.01	11.06	11.29	1.07	12.37	+1.25	+0.06	+1.31
1989	10.01	1.00	11.01	11.31	1.07	12.38	+1.30	+0.07	+1.37
1990	10.02	1.00	11.02	11.46	1.21	12.68	+1.44	+0.22	+1.66
1991	9.99	0.99	10.99	11.48	1.22	12.70	+1.49	+0.22	+1.71
1992	9.98	1.00	10.98	11.50	1.22	12.72	+1.52	+0.22	+1.74
1993	9.95	1.00	10.95	11.52	1.22	12.74	+1.57	+0.21	+1.78
1994	9.84	1.01	10.85	11.55	1.24	12.79	+1.71	+0.23	+1.94
1995	9.71	1.02	10.73	11.56	1.24	12.79	+1.85	+0.22	+2.07
1996	9.54	1.02	10.56	11.55	1.24	12.79	+2.01	+0.22	+2.23
1997	9.35	1.02	10.37	11.55	1.24	12.79	+2.20	+0.21	+2.42
1998	9.21	1.03	10.24	11.55	1.24	12.79	+2.34	+0.21	+2.55
1999	9.11	1.05	10.16	11.55	1.24	12.79	+2.44	+0.19	+2.63
2000	9.01	1.07	10.08	11.32	1.46	12.79	+2.32	+0.39	+2.70
2001	8.92	1.10	10.02	11.32	1.46	12.79	+2.40	+0.36	+2.77
2002	8.85	1.13	9.98	11.32	1.46	12.79	+2.48	+0.33	+2.81
2003	8.79	1.16	9.95	11.32	1.46	12.79	+2.53	+0.30	+2.84
2004	8.74	1.20	9.94	11.32	1.47	12.79	+2.59	+0.26	+2.85
2005	8.70	1.24	9.94	11.33	1.47	12.79	+2.62	+0.23	+2.85
2006	8.70	1.29	9.98	11.33	1.47	12.80	+2.63	+0.18	+2.81
2007	8.72	1.33	10.05	11.33	1.47	12.80	+2.61	+0.14	+2.75
2008	8.77	1.38	10.15	11.34	1.47	12.81	+2.56	+0.10	+2.66
2010	8.95	1.44	10.40	11.35	1.48	12.83	+2.39	+0.03	+2.43
2015	9.99	1.55	11.54	11.40	1.48	12.89	+1.42	−0.07	+1.35
2020	11.31	1.61	12.92	11.47	1.49	12.96	+0.16	−0.12	+0.04
2025	12.55	1.68	14.23	11.55	1.49	13.04	−1.00	−0.19	−1.19
2030	13.36	1.65	15.01	11.60	1.49	13.09	−1.76	−0.16	−1.91
2035	13.68	1.61	15.29	11.63	1.49	13.13	−2.05	−0.11	−2.16
2040	13.59	1.63	15.22	11.65	1.50	13.14	−1.95	−0.13	−2.07
2045	13.52	1.67	15.19	11.66	1.50	13.16	−1.86	−0.17	−2.03
2050	13.63	1.68	15.31	11.67	1.50	13.17	−1.96	−0.18	−2.14
2055	13.77	1.65	15.42	11.67	1.50	13.17	−2.10	−0.15	−2.25
2060	13.81	1.63	15.45	11.67	1.50	13.18	−2.14	−0.13	−2.27
25-year averages:									
1984 to 2008	9.45	1.10	10.54	11.29	1.27	12.56	+1.84	+0.17	+2.01
2009 to 2033	11.42	1.60	13.02	11.49	1.49	12.97	+0.06	−0.11	−0.05
2034 to 2058	13.65	1.65	15.29	11.66	1.50	13.16	−1.99	−0.15	−2.14
75-year average: 1984 to 2058	11.51	1.45	12.95	11.48	1.42	12.90	−0.03	−0.03	−0.06

[1] A positive balance indicates a surplus; a negative balance indicates a deficit.

Note: The above estimates are based on the 1984 alternative II–B assumptions.

TABLE 21.—ESTIMATED LONG-RANGE OASI AND DI TRUST FUND RATIOS

[In percent]

Year	OASI	DI	OASDI	Year	OASI	DI	OASDI
1981	18	21	18	2021	556	276	522
1982	15	17	15	2022	546	267	512
1983	15	14	14	2023	535	256	501
1984	20	35	21	2024	522	245	489
1985	21	27	21	2025	509	234	476
1986	25	24	25	2026	495	222	463
1987	27	23	27	2027	482	211	450
1988	29	25	29	2028	467	202	437
1989	39	55	41	2029	453	193	424
1990	53	64	54	2030	438	185	411
1991	68	86	69	2031	424	178	397
1992	83	108	85	2032	409	171	384
1993	99	130	101	2033	395	164	370
1994	116	150	119	2034	380	158	357
1995	135	171	138	2035	366	151	343
1996	156	192	159	2036	352	145	331
1997	180	212	183	2037	339	138	318
1998	205	231	207	2038	326	131	306
1999	231	244	232	2039	313	123	293
2000	258	255	258	2040	301	116	281
2001	284	280	284	2041	288	107	269
2002	312	303	311	2042	276	99	257
2003	340	321	338	2043	263	90	244
2004	368	333	364	2044	250	80	232
2005	397	342	390	2045	238	70	219
2006	426	346	415	2046	225	60	206
2007	453	348	439	2047	211	49	194
2008	479	346	461	2048	198	39	180
2009	504	343	482	2049	184	28	167
2010	525	341	500	2050	170	17	154
2011	543	337	514	2051	156	7	140
2012	557	333	526	2052	142	(1)	[2] 126
2013	568	328	535	2053	127	(1)	[2] 112
2014	575	323	541	2054	113	(1)	[2] 98
2015	580	317	544	2055	98	(1)	[2] 84
2016	581	311	545	2056	83	(1)	[2] 69
2017	581	304	544	2057	68	(1)	[2] 55
2018	577	298	541	2058	52	(1)	[2] 40
2019	572	291	537	2059	37	(1)	[2] 26
2020	565	284	530	2060	22	(1)	[2] 11

[1] The fund is projected to be exhausted.

[2] Because the DI fund is exhausted, these ratios are theoretical and are shown for information purposes only.

Note: The above estimates are based on the 1984 alternative II–B assumptions. The trust fund ratio is defined as the ratio of the trust fund balance at the beginning of the year to the outgo during the year. After 1983, ratios reflects the inclusion of advance tax transfers for January. These estimates assume that the $12.4 billion borrowed by OASI from HI in 1982 will be repaid as follows: $5.5 billion in 1986, and $6.9 billion in 1987. It is also assumed that the $5.1 billion borrowed from DI in 1982 will be repaid in 1988.

HI trust fund

Long-range estimates for the next 25 years are shown in table 22 for the HI program. These estimates do not reflect changes enacted into law as a result of the Deficit Reduction Act of 1984. The estimates are based on the alternative II–B assumptions.

As in the case of the OASDI program, annual expenditures as a percentage of taxable earnings are shown in table 22 as the cost rate. The income rate for the HI program is simply the combined scheduled tax rate for employees and employers.

The average deficit over the 25-year period is 1.37 percent of taxable earnings. However, the average long-range deficit of the HI program is still very high, representing almost one-third of the total long-range cost of the program.

TABLE 22.—ESTIMATED LONG-RANGE HI ANNUAL COST RATE, ANNUAL INCOME RATE, AND ACTUARIAL BALANCE

[Percent of taxable payroll]

Calendar year	Cost rate [1]	Income rate [2]	Difference [3]
1983	2.78	2.60	−0.18
1984	2.79	2.60	−0.19
1985	2.92	2.70	−0.22
1990	3.57	2.90	−0.67
1995	4.20	2.90	−1.30
2000	4.75	2.90	−1.85
2005	5.23	2.90	−2.33
25-year average: 1984 to 2008	4.25	2.88	−1.37

[1] Defined as the annual expenditures of the program, expressed as a percentage of the effective taxable payroll. It does not include additional amounts that would be needed to maintain the trust fund balance at an adequate level.

[2] This is simply the combined employee-employer tax rate. The provision for taxation of benefits—which is an additional source of income for the OASDI program—does not apply to the HI program.

[3] A positive figure indicates a surplus; a negative balance indicates a deficit.

Note: The above estimates are based on the 1984 alternative II–B assumptions.

Source: Office of the Actuary, Health Care Financing Administration.

ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS

The following tables provide specific information concerning the economic and demographic assumptions which underlie the social security trustees' short and long-run financial projections.

TABLE 23.—ECONOMIC ASSUMPTIONS, 1960–2055

Calendar years	Average annual percentage increase in— Real GNP	Average wages in covered employment	Consumer Price Index	Real wage differential (percent)	Average annual unemployment rate
Past experience:					
1960–64	4.0	3.4	1.3	2.1	5.7
1965–69	4.4	5.4	3.4	2.0	3.8
1970–74	2.8	6.3	6.1	.2	5.4
1975–79	3.5	7.8	8.1	−.3	7.0
1980	−.1	8.5	13.5	−4.9	7.1
1981	2.0	8.7	10.3	−1.6	7.6
1982	1.9	5.8	6.0	−.2	9.7
1983	3.3	4.2	3.0	1.2	9.6
Intermediate II–B:					
1984	4.9	5.9	4.7	1.2	7.9
1985	3.6	6.1	5.3	.8	7.5
1990	3.0	5.6	4.0	1.6	6.2
1991	2.7	5.5	4.0	1.5	6.0
1992	2.4	5.6	4.0	1.6	6.0
2000	2.6	5.6	4.0	1.6	6.0
2000 and later	[1] 2.0	5.5	4.0	1.5	6.0
Pessimistic:					
1985	.4	5.0	5.7	−.7	9.0
1986	2.7	6.4	6.0	.4	8.8
1987	2.7	5.9	5.5	.4	8.4
1990	2.7	6.3	5.0	1.3	7.3

[1] This value is for the year 2000. The annual increase in real GNP is assumed to continue to change after 2000 under each alternative to reflect the dependence of labor force growth on the size and age-sex distribution of the population. The percentage increases for 2060 are 2.1 and 1.0 for Alternatives II–B and III, respectively.

TABLE 24.—MAJOR LONG-TERM DEMOGRAPHIC AND LABOR FORCE PARTICIPATION ASSUMPTIONS

FERTILITY RATES

[1984 trustees' report II–B assumptions]

	1917	1933	1947	1957	1976	1981	1995	2008+
Children born per woman in her lifetime	3.33	2.17	3.18	3.68	1.74	1.85	1.93	2.00

LIFE EXPECTANCIES

[In years]

	1900	1940	1960	1980	2000	2020	2060
Male:							
At birth	46.4	61.4	66.7	69.9	73.7	74.7	76.7
Age 65	11.4	11.9	12.9	14.0	15.7	16.4	17.8
Female:							
At birth	49.0	65.7	73.2	77.5	81.1	82.3	84.5
Age 65	12.0	13.4	15.9	18.4	20.7	21.6	23.4

PERCENTAGE OF THOSE BORN WHO CAN EXPECT TO REACH AGE 65

[Using mortality for calendar year]

	1900	1940	1960	1980	2000	2020	2060
Male	37.3	55.5	63.8	70.5	78.0	79.4	81.9
Female	41.0	65.4	78.2	83.4	87.2	88.2	89.7

LABOR FORCE PARTICIPATION RATES

[Age-sex adjusted]

[In percent]

	1981	1985	1990	1995	2000+
Male	77.5	77.4	78.9	78.9	77.6
Female	52.3	55.0	58.2	59.2	59.5

COVERED WORK FORCE—NUMBER OF BENEFICIARIES AND DEPENDENCY RATIOS

	1960	1980	2000	2020	2040
Total population (in millions)	189	236	277	308	325
Covered workers	73	114	146	155	157
Beneficiaries	14	35	45	64	78
Dependency ratio [1]	.915	.756	.691	.744	.843
Worker/beneficiary ratio	5.1	3.3	3.3	2.4	2.0

---

[1] Ratio of nonworking to working population—population under 20 plus population over 65 divided by population 20–64.

PERCENT OF ELIGIBLE WORKERS DRAWING RETIREMENT BENEFITS

Selected ages	1981	1990	2000	2010 and later
62 to 64:				
Male	39.0	44.0	44.0	44.0
Female	51.0	53.7	54.4	[1] 54.7
65 to 69:				
Male	90.0	93.0	93.0	93.0
Female	87.5	91.1	92.3	[1] 93.0

[1] Rises very slightly after 2010.

Source: Congressional Research Service.

Sensitivity of OASDI cost to different assumptions

It should be borne in mind that all of these estimates are extremely sensitive to even small changes in the long-term assumptions. Table 25 demonstrates how small changes in three assumptions, the fertility rate, mortality improvement, and the real wage differential, can have a significant impact on the long-range deficit. For example, a one-half percent decrease in the real wage differential will cause the long-run 75 year deficit to increase to −0.79 percent of taxable payroll.

TABLE 25.—SENSITIVITY OF OASDI COST ESTIMATES TO SELECTED ASSUMPTIONS

	Assumptions		
	Intermediate (II–b)	More optimistic	More pessimistic
Ultimate fertility rate: Children per woman	2.0	2.3	1.6
Effect on 75 year balance [1]	−.06	+.51	−1.15
Real-wage differential: Difference between wage and price increases in percent	1.5	2.0	1.0
Effect on 75 year balance [1]	−.06	+.62	−.79
Mortality improvement [2]	39	60	22
Effect on 75 year balance [1]	−.06	+.56	−1.07

[1] Expressed as percent of taxable payroll: (−) indicates a deficit balance, (+) indicates a positive balance. Intermediate assumption in 1984 trustees report. Long.run deficit under intermediate assumptions is −.06 percent of payroll, post reconciliation.

[2] The mortality improvement is the percentage decrease from 1982 to 2060 in the age-sex adjusted death rate.

Source: 1984 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

Section 6. Trade Adjustment Assistance

The trade adjustment assistance (TAA) programs were first established under the Trade Expansion Act of 1962 for the purpose of assisting in the special adjustment problems of workers and firms dislocated as a result of a Federal policy of liberalizing barriers to encourage increased foreign trade. As a result of limited eligibility and usage of the programs, criteria and benefits were liberalized under title II of the Trade Act of 1974, Public Law 93-618. The Omnibus Budget Reconciliation Act of 1981 (OBRA), Public Law 97-35, reformed the program for workers as proposed by the Administration. The amendments, particularly in program eligibility and benefits, were intended to reduce program cost significantly and to shift its focus from income compensation for temporary layoffs to return to work through training and other adjustment measures for the long-term or permanently unemployed. The OBRA also made relatively minor modifications in the firm program. Most amendments became effective on October 1, 1981. Both programs were extended at that time for 1 year, to terminate on September 30, 1983.

Public Law 98-120 (H.R. 3813 as amended by the Senate), approved on October 12, 1983, extended the worker and firm TAA programs for 2 years until September 30, 1985. Sections 2671-2673 of the Deficit Reduction Act of 1984, Public Law 98-369, contain three provisions (sections 3, 6, and 8 of H.R. 3391 as passed by the House on September 15, 1983) amending the program for workers to increase the availability of worker training allowances and the level of job search and relocation benefits and the program for firms to increase the availability of industrywide technical assistance.

TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR WORKERS

Trade adjustment assistance for workers under sections 221 through 250 of the Trade Act of 1974, as amended, consists of trade readjustment allowances (TRA), employment services, training and extended TRA allowances while in training, and job search and relocation allowances for certified and otherwise qualified workers. The program is administered by the Employment and Training Administration (ETA) of the Department of Labor through State employment security agencies under cooperative agreements between each State and the Secretary of Labor. ETA processes petitions and issues certifications or denials of petitions by groups of workers for eligibility to apply for TAA. The State agencies act as Federal agents in processing applications and determining individual worker eligibility for benefits, issuing payments, and providing reemployment services and training opportunities.

Certification requirements

A two-step process is involved in the determination of whether an individual worker will receive trade adjustment assistance; (1) certification by the Secretary of Labor of a petitioning group of workers in a particular firm as eligible to apply; and (2) approval by the State agency administering the program of the application for benefits of an individual worker covered by a certification.

The process begins by a group of three or more workers, their union, or authorized representative filing a petition with the ETA for group eligibility. To certify a petitioning group of workers as eligible to apply for adjustment assistance, the Secretary must determine that three conditions are met:

1. A significant number or proportion of the workers in the firm or subdivision of the firm have been or are threatened to be totally or partially laid off;
2. Sales and/or production of the firm or subdivision have decreased absolutely; and
3. Increased imports of articles like or directly competitive with articles produced by the firm or subdivision of the firm have "contributed importantly" to both the layoffs and the decline in sales and/or production.

TABLE 1.—NUMBER OF PETITIONS INSTITUTED AND CERTIFIED AND ESTIMATED NUMBER OF WORKERS PETITIONING AND CERTIFIED FOR TRADE ADJUSTMENT ASSISTANCE, TOTAL AND BY INDUSTRY FROM APRIL 1975 THROUGH DECEMBER 31, 1984

Year	Cases instituted		Cases certified		
	Petitions	Estimated workers	Petitions	Percent [1]	Estimated workers
1975	528	210,987	121	50	54,842
1976	1,014	218,538	430	45	143,578
1977	1,289	227,551	411	38	143,700
1978	1,732	171,306	854	42	164,407
1979	2,119	320,309	844	41	221,082
1980	5,347	1,026,758	935	29	585,243
1981	1,134	133,851	260	9	32,820
1982	1,030	181,758	254	20	21,127
1983	959	205,231	482	35	55,366
1984 (estimated)	504	53,100	337	54	29,800
Total	15,656	2,749,389	4,928	....	1,451,965

[1] Estimated percent of petitioning workers covered by completed cases; figures are not precise but indicate the trend.

	Thousands
Total estimated number of workers certified	1,452
Industry:	
Automobiles	734

	Thousands
Steel	163
Apparel	182
Footwear	89
Electronics	63
Fabricated metal products	39
Textiles	28

Source: Department of Labor.

Eligibility requirements for trade readjustment allowances

In order to receive entitlement to a trade readjustment allowance for any week of unemployment, an individual worker covered by a certification must file an application with his State employment security office and meet the following eligibility requirements:

1. The worker's last total or partial layoff before application must have occurred not more than 1 year prior to the date of the petition, on or after the "impact date" (i.e., the date on which total or partial layoffs began or threatened to begin), within 2 years after the date the Secretary of Labor issued the certification covering the worker, and before the termination date (if any) of the certification; and
2. The worker was employed at least 26 of the 52 weeks preceding last layoff in adversely affected employment with a single firm or subdivision thereof at wages of $30 or more per week.

A week of employment includes the week in which layoff occurs and up to 3 weeks of employer-authorized vacation, sick, injury, maternity, or military leave, or service as a union representative, up to 7 weeks of disability covered by workmen's compensation, or up to 7 weeks of leave and disability combined, to which no more than 3 weeks may consist of authorized leave.

In addition, the OBRA amended the program to include the following TRA eligibility limitations:

1. Under the program prior to October 1, 1981, TRA benefits were a supplement to state unemployment insurance and paid concurrently during weeks the worker was eligible for UI. A fundamental change under the current program makes TRA benefits a continuation of the UI program by requiring the worker to exhaust all rights to UI, including any extended benefits (EB) or Federal supplemental compensation (FSC), to which the worker is entitled in the most recent benefit period before becoming eligible for any TRA payments. The worker is also ineligible for TRA benefits for any subsequent week of entitlement to payment for any further UI or waiting period credit.
2. All TRA claimants in all States are subject to the provisions of the EB "suitable work" test under section 202(a)(3) of the Federal-State Extended Unemployment Compensation Act of 1970 after the end of their regular UI benefit period as a

precondition for receiving any weeks of TRA payments. Workers are not disqualified for TRA benefits if in State-approved training prior to eligibility or for any form of TAA because of subsequently leaving employment which is not of a substantially equal or higher skill and wage level than previous employment.

3. Workers are entitled to TRA payments only for weeks of unemployment which begin more than 60 days after the filing date of the petition, i.e. after the statutory deadline for certification. Workers can continue to be certified for layoffs occurring up to 1 year prior to the petition filing date in order to qualify for other TAA benefits, but can no longer receive TRA payments retroactively beyond the date certification is supposed to take place.

4. No TRA payment can be made for a UI waiting week.

5. As a further encouragement to reemployment, the Secretary of Labor may require all workers in a labor market area with certain economic characteristics either to accept training or to extend job search beyond their labor market area after their first 8 weeks of TRA eligibility if they have been approved for training.

Benefit levels and duration

TRA benefits prior to October 1, 1981, were 70 percent of the worker's former gross weekly wage not to exceed the average weekly manufacturing wage, reduced by the amount of his unemployment compensation entitlement, 50 percent of any part-time earnings, and certain training allowances paid under Federal law. Eligible workers could collect basic benefits for up to 52 weeks of unemployment during a maximum two-year period following layoff.

The following major changes under the OBRA, effective as of October 1, 1981, reduce program costs and are intended to remove reemployment disincentives associated with the previous high net wage replacement and the inequity in benefit amounts between import-impacted workers and workers laid off for other reasons:

1. The TRA weekly benefit amount is the same as, and a continuation of, the claimant's unemployment insurance weekly benefit amount during the most recent UI benefit period, reduced by any training allowance and disqualifying income deductible under UI law. This change has shifted the TRA benefit level from a uniform national standard to a State standard.

2. The total amount of basic TRA benefits payable to a worker is a maximum of 52 times the TRA allowance level for a week of total unemployment minus the total amount of UI benefits payable in the worker's most recent benefit period (e.g., a worker receiving 39 weeks of UI regular and extended benefits could receive a maximum 13 weeks of TRA benefits). UI and TRA payments combined are limited to a maximum 52 weeks in all cases involving extended benefits. TRA basic benefits may be collected only during the 52-week period following the week in which the worker has exhausted all rights to regular unemployment compensation in the most recent benefit period. The purpose of the shortened collection period was to

reduce payment of TRA benefits during periods of non-trade-related unemployment.

3. Workers may receive up to 26 additional weeks of TRA benefits to assist in completing approved training, if the worker applies for the training program within 210 days (compared to 180 days previously) after certification or layoff, whichever date is later. The additional benefits may be collected only during the 26-week period (compared to 52-week period under the previous program) following the worker's last week of entitlement to basic TRA benefits. As amended in 1984, if training has not been approved until after the last week of entitlement to basic TRA, the 26-week collection period begins with the first week of training.

TABLE 2.—TOTAL OUTLAYS FOR TRADE READJUSTMENT ALLOWANCES, NUMBER OF RECIPIENTS, AVERAGE WEEKLY PAYMENTS AND DURATION, FISCAL YEARS 1976 THROUGH 1984

Fiscal year	Total outlays (millions)	Total number of recipients (thousands)	Average weekly payment per recipient	Average week's duration
1975 (4th quarter)	$71	47	$58	26.0
1976 [1]	79	62	47	27.3
1977	148	111	57	23.4
1978	257	156	68	24.3
1979	256	132	70	27.4
1980	1,622	532	126	24.1
1981	1,440	281	140	36.5
1982	103	30	119	28.4
1983	37	30	120	10.1
1984 (estimated)	35	24	118	12.0
Total	4,048	1,405	120	24.0

[1] Fiscal year 1976 is the first full year of experience under the program as amended by the Trade Act of 1974.

Note: The above figures relate only to trade readjustment allowances; administrative expenses and outlays for employment services, training, and job search and relocation allowances are not included.

Source: Department of Labor.

Training and other employment services, job search and relocation allowances

Training and other employment services and job search and relocation allowances are available through State agencies to certified workers whether or not they have exhausted UI benefits and become eligible for TRA payments.

Employment services consist of counseling, vocational testing, job search and placement, and other supportive services, as appropriate.

Training, preferably on-the-job, *may* be approved for a worker if the following five conditions are met: (1) there is no suitable employment available; (2) the worker would benefit from appropriate training; (3) there is a reasonable expectation of employment following training completion; (4) approved training is available from government agencies or private sources; and (5) the worker is qualified to undertake and complete such training. While training itself is not an entitlement even if the above conditions are met, if training is approved, a worker is entitled to payment of the costs. As a result, the Department of Labor has added administratively another condition prohibiting State agencies from approving training if sufficient funds have not been appropriated and allocated to pay the costs.

Supplemental assistance is available to defray reasonable transportation and subsistence expenses for separate maintenance when training is not within the worker's commuting distance, equal to the lesser of actual per diem expenses or 50 percent of the prevailing Federal per diem rate for subsistence and prevailing mileage rates under Federal regulations for travel expenses.

Job search allowances are available to certified workers who cannot obtain suitable employment within their commuting area, are totally laid off, and who apply within 1 year after certification or last total layoff, whichever is later, or within 6 months after concluding training. As amended in 1981 and 1984, the allowance for reimbursement is equal to 90 percent of necessary job search expenses, based on the same increased supplemental assistance rates described above, up to a maximum amount of $800.

Relocation allowances are available to certified workers totally laid off at time of relocation who have been able to obtain an offer of or actual suitable employment only outside their commuting area, who apply within 14 months after certification or last total layoff, whichever is later, or within 6 months after concluding training, and whose relocation takes place within 6 months after application or completion of training. As amended in 1981 and 1984, the allowance is equal to 90 percent of reasonable and necessary expenses for transporting the worker, family, and household effects, based on the same increased supplemental assistance rates described above, plus a lump sum payment of three times the worker's average weekly wage up to a maximum amount of $800.

TABLE 3.—TRAINING, JOB SEARCH, AND RELOCATION ALLOWANCES: TOTAL NUMBER OF WORKERS AND OUTLAYS, FISCAL YEARS 1976 THROUGH 1984

Fiscal year	Total number			Total outlays (millions)[1]		
	Entered training	Job searches	Relocations	Training	Job searches	Relocations
1975 (4th quarter)	463	158	44			
1976	823	23	26	(2)	(2)	(2)
1977	4,213	277	191	(3)	(3)	$0.2
1978	8,337	1,072	631	$12.0	$0.2	.6
1979	4,458	1,181	855	12.0	.3	1.2
1980	[4] 9,475	931	629	5.2	.1	.7
1981	[4] 20,386	1,491	2,011	1.9	.3	2.0
1982	5,844	697	662	18.4	(5)	(5)
1983	11,299	696	3,269	33.0	(6)	(6)
1984 (estimated)	6,538	757	2,382	18.5	.2	2.3
Total	73,937	7,282	10,701			

[1] Excludes administrative costs.

[2] Total $2.7.

[3] Total $3.8.

[4] Of total workers entering training, 5,640 (59 percent) in 1980 and 18,940 (94 percent) in 1981 self-financed their training costs.

[5] Total outlays of $1.0 million for job search and relocation expenses.

[6] Total outlays of $3.0 million for job search and relocation expenses.

Source: Department of Labor.

Funding

Federal funds, through annual appropriations from Treasury general revenues, cover only the portion of the worker's total entitlement represented by the continuation of UI benefit levels in the form of TRA payments, plus the salaries and expenses for ETA personnel administering the program. Funds made available under grants to States defray expenses of any employment services. Funding for training, job search and relocation allowances, and related expenses is subject to annual appropriations.

For fiscal year 1985, $26 million is appropriated for training and job search and relocation allowances. Estimated outlays for trade readjustment allowance payments total $45 million.

The States are reimbursed from Treasury general revenues for benefit payments and other costs incurred under the program. A penalty under section 239 of the Trade Act of 1974 provides for reduction by 15 percent of the credits for State unemployment taxes which employers are allowed against their liability for Federal unemployment tax if a State has not entered into or has not fulfilled its commitments under a cooperative agreement.

TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR FIRMS

Section 251 through 264 of the Trade Act of 1974, as amended, contain the procedures, eligibility requirements, benefits and their terms and conditions, and administrative provisions of the trade adjustment assistance program for firms adversely impacted by increased import competition. Administration of the program was transferred in 1982 within the Department of Commerce from the Economic Development Administration to the International Trade Administration.

Program benefits consist of technical and/or financial assistance for petitioning firms which qualify under a two-step procedure: (1) certification by the Secretary of Commerce that the petitioning firm is eligible to apply, and (2) approval by the Secretary of Commerce of the application by a certified firm for benefits, including the firm's proposal for economic adjustment.

To certify a firm as eligible to apply for adjustment assistance, the Secretary must determine that three conditions are met:

1. A significant number or proportion of the workers in the firm have been or are threatened to be totally or partially laid off;
2. Sales and/or production of the firm have decreased absolutely; and
3. Increased imports of articles like or directly competitive with articles produced by the firm have "contributed importantly" to both the layoffs and the decline in sales and/or production.

A certified firm may file an application with the Secretary of Commerce for trade adjustments assistance benefits at any time within 2 years after the date of the certification of eligibility. The application must include a proposal by the firm for its economic adjustment. The Secretary may furnish technical assistance to the firm in preparing its petition for certification and/or in developing a viable economic adjustment proposal.

The firm's application must meet the following requirements for approval of technical and/or financial assistance:

1. The firm has no reasonable access to financing through the private capital market.
2. The adjustment proposal demonstrates that the assistance sought (a) is reasonably calculated to make a material contribution to the economic adjustment of the firm in establishing a competitive position in the same or a different industry; (b) gives adequate consideration to the interest of the workers in the firm; and (c) demonstrates the firm will make all reasonable efforts to use its own resources for economic development.

In addition, the Secretary must determine that a firm seeking financial assistance (1) does not have the required funds available from its own resources; and (2) there is reasonable assurance that the loan will be repaid.

Benefits

Technical assistance and financial assistance may be furnished singly or in combination to certified firms with approved applications.

Technical assistance may be given to implement the firm's economic adjustment proposal in addition to, or in lieu of, precertification assistance or assistance in developing the proposal. It may be furnished through existing government agencies or through private individuals, firms, and institutions (including private consulting services), or by grants to intermediary organizations, including regional Trade Adjustment Assistance Centers. The Federal share cannot exceed 75 percent of the cost of assistance furnished through private individuals, firms, or institutions. Grants may be made to intermediate organizations to defray up to 100 percent of their administrative expenses in providing technical assistance.

As amended in 1984, the Secretary of Commerce also may provide technical assistance of up to $10 million annually per industry to establish industrywide programs for new product or process development, export development, or other uses consistent with adjustment assistance objectives. The assistance may be furnished through existing agencies, private individuals, firms, universities, and institutions, and by grants, contracts, or cooperative agreements to associations, unions, or other nonprofit organizations of industries in which a substantial number of firms have been certified.

Financial assistance may be direct loans and/or loan guarantees for (1) acquiring, constructing, installing, modernizing, developing, converting, or expanding land, plant, buildings, equipment, facilities, or machinery; or (2) supplying such working capital as may be necessary to enable the firm to implement its adjustment proposal. The Secretary, in considering whether to provide financial assistance, must give preference to firms which establish an employee stock ownership plan.

Direct loans to any firm cannot exceed an aggregate amount of $1 million outstanding at any time. The interest rate is determined by the Secretary of the Treasury, plus an amount adequate to cover administrative costs and probable losses under the program.

Loan guarantees to any firm cannot exceed an aggregate amount of $3 million outstanding at any time. No loan can be guaranteed for more than 90 percent of the balance of the loan outstanding.

Maturities of direct loans and loan guarantees normally cannot exceed 10 years on working capital loans and 25 years or the useful life of the fixed assets, whichever is less, on loans for land, plant, building, equipment, or machinery.

Funding

Funds to cover all costs of the program are subject to annual appropriations to the International Trade Administration of the Department of Commerce from general revenues. For fiscal year 1985, a total of $25 million was appropriated for the program, including $16.5 million for technical assistance grants, $6.5 million for direct loans, and $2.0 million for administration. Loan guarantee authority of $15 million is also available.

TABLE 4.—NUMBER OF FIRMS CERTIFIED AND TECHNICAL AND FINANCIAL ASSISTANCE AUTHORIZED FOR THE PERIOD FROM APRIL 1975 THROUGH DECEMBER 31, 1984

[Dollars in thousands]

Number of firms certified	[1]2,372
Number certified by industry: [2]	
Apparel	571
Machinery and equipment	338
Leather, leather goods	261
Metal products	237
Textiles	151
Lumber, wood products, furniture	122
Technical assistance: Number of firms receiving assistance	[1, 3] 4,491
Total assistance authorized	$118,647
Individual firms	$81,395
Industrywide	$37,252
Financial assistance: Number of firms receiving loans	337
Total loans authorized	$381,151
Direct loans	$206,057
Loan guarantees	$175,094

[1] Preliminary estimate.

[2] Through Sept. 30, 1984.

[3] Double counting is unavoidable since most firms receive more than one category of technical assistance.

Source: Department of Commerce.

LEGISLATIVE CHANGES DURING 1984

In June of 1984, Congress enacted H.R. 4170, the Deficit Reduction Act of 1984 (Public Law 98-369). This new law included three trade adjustment amendments each with negligible budget effect and which are summarized below:

1. Limitations on trade readjustment allowances

In prior law, section 233(a)(3) of the Trade Act of 1974, the 26 weeks of additional trade readjustment allowances (TRA) that an eligible worker may receive while in training could be collected only during the 26 weeks immediately following exhaustion of entitlement to basic TRA.

The act amended section 233(a)(3) of the Trade Act of 1974 upon enactment to enable workers to collect the extra 26 weeks of TRA beginning with the first week the worker enters training if that training has not been approved until after the last week of entitlement to basic TRA benefits.

2. Job search and relocation allowances

In prior law, sections 237 and 238 of the Trade Act of 1974, eligible workers can be reimbursed for 90 percent of necessary job search expenses up to a maximum of $600; relocation allowances consist of 90 percent of reasonable and necessary expenses, plus a lump sum payment of three times the worker's average weekly wage, up to a maximum of $600.

The act amended sections 237 and 238 of the Trade Act upon enactment to increase the maximum job search allowance to $800 and the maximum lump sum relocation allowance to $800.

3. Assistance to industry

Prior law (section 265 of the Trade Act of 1974) authorized the provision of technical assistance programs for industries in which a substantial number of firms have been certified as eligible to apply for adjustment assistance. The section limited industry-wide technical assistance to improve competitiveness to $2 million annually per industry; only industries in which a substantial number of firms have been certified were eligible.

The act amended section 265 of the Trade Act upon enactment to extend eligibility also to industries in which a substantial number of workers have been certified eligible, and increases the maximum amount of annual assistance per industry to $10 million.

Section 7. Unemployment Compensation

OVERVIEW

The Social Security Act of 1935 (Public Law 74-271) created the Federal-State unemployment compensation (UC) system. It has two main objectives: (1) to provide temporary and partial wage replacement to involuntarily unemployed workers who were recently employed; and (2) to help stabilize the economy during recessions. The U.S. Department of Labor oversees the system, but each State administers its own program. Because Federal law defines the District of Columbia, Puerto Rico, and Virgin Islands as "States" for the purposes of unemployment compensation, there are 53 State programs.

The Federal Unemployment Tax Act of 1939 (Public Law 76-379) and titles III, IX, and XII of the Social Security Act form the framework of the system. The Federal Unemployment Tax Act (FUTA) currently imposes a 6.2 percent gross tax rate on the first $7,000 paid annually by covered employers to each employee. Employers in States with programs approved by the Federal Government and with no delinquent Federal loans may credit 5.4 percentage points against the 6.2 percent tax rate, making the minimum, net Federal unemployment tax rate 0.8 percent. This Federal revenue finances administration of the system, half of the Federal-State extended benefits program, and a Federal account for State loans. In theory, the States are supposed to use the revenue turned back to them by the 5.4 percent credit to finance their regular State programs and half of the Federal-State extended benefits program.

TABLE 1.—UNEMPLOYMENT COMPENSATION PROGRAM STATISTICS

	Fiscal year—									
	1977	1978	1979	1980	1981	1982	1983	1984	1985 (revised estimate) [2]	1986 (estimate) [2]
Total civilian unemployment rate (percent)	7.4	6.2	5.8	6.8	7.3	9.1	10.1	7.8	7.1	7.0
Insured unemployment rate (percent) [1]	4.1	3.5	3.1	3.8	3.5	4.4	4.3	2.9	2.8	2.8
Coverage (millions of individuals)	70.0	79.9	86.1	87.0	88.2	86.8	86.3	89.9	92.4	94.4
Average weekly benefit amount (dollars)	76	80	85	96	102	114	120	119	119	123
State unemployment compensation:										
Beneficiaries (millions of individuals)	8.4	7.7	7.8	9.9	8.8	11.4	9.9	7.6	7.9	8.1
Regular benefit exhaustions (millions of individuals)	2.9	2.2	2.0	2.7	3.2	3.7	4.6	2.8	2.7	2.7
Regular benefits paid (billions of dollars)	8.94	8.32	8.74	12.95	13.46	19.34	20.84	13.3	13.6	14.2
Extended benefits (State share: billions of dollars)	.95	.51	.12	.56	1.06	.93	1.21	.03	.02	.01
State tax collections (billions of dollars)	9.25	11.03	12.27	11.91	12.37	12.77	14.43	19.04	19.41	17.99
State trust fund impact (income-outlays: billions of dollars)	−.64	+2.20	+3.41	−1.60	−2.15	−7.50	−7.62	+5.70	+5.75	+3.76
Federal unemployment compensation accounts:										
Federal tax collections (billions of dollars) [3]	1.87	2.60	2.91	3.19	3.26	3.18	3.58	5.02	4.76	4.79
Outlays: Federal extended benefits share plus Federal supplemental benefits (billions of dollars)	2.51	.69	.12	.56	1.06	.97	6.80	3.01	1.05	.01
Administrative costs (billions of dollars):										
Unemployment Insurance Service	.96	.93	.97	1.15	1.32	1.42	1.70	1.54	1.32	1.37
Employment Service	.60	.64	.70	.73	.73	.68	.72	.86	.80	.80
Total administrative costs	1.56	1.57	1.67	1.88	2.05	2.10	2.42	2.40	2.12	2.17

[1] The percent of workers covered under State unemployment compensation programs who collected unemployment compensation benefits.
[2] Based on President's 1985 budget.
[3] Net of reduced credits.

Sources: Office of Research, Legislation and Program Policies/ETA/UIS/DOL, Division of Actuarial Services, and U.S. Budget Appendixes.

The Federal Unemployment Tax Act (FUTA) determines covered employment. FUTA also imposes certain requirements on the State programs, but the States generally determine individual qualification requirements, disqualification provisions, eligibility, weekly benefit amounts, potential weeks of benefits, and the State tax structure used to finance all of the regular State benefits and half of the extended benefits.

The Social Security Act provides for the administrative framework. Title III authorizes Federal grants to the States for administration of the State UC laws. Title IX authorizes the various components of the Federal Unemployment Trust Fund. Title XII authorizes advances or loans to insolvent State UC programs.

The Unemployment Trust Fund

The Federal unified budget accounts for all Federal-State UC outlays and taxes in the Federal Unemployment Trust Fund. The Unemployment Trust Fund has 59 accounts. The accounts consist of 53 State UC program accounts, the Railroad Unemployment Insurance Account, Railroad Administration Account, and four Federal accounts. The status of each State program account at the beginning of fiscal year 1985 is shown in table 2.

The economic recovery and expansion have improved the fiscal condition of the unemployment trust fund. State debt declined from $13.2 billion at the beginning of fiscal year 1984 to $9.8 billion at the beginning of fiscal year 1985. However, the number of States with Federal loans increased from 19 to 21.

TABLE 2.—STATE UNEMPLOYMENT TRUST FUND ACCOUNT BALANCES AT THE BEGINNING OF FISCAL YEAR 1985

[Dollars in millions]

State	1985 beginning balance	Minus loans outstanding at beginning of 1985	1985 adjusted beginning balances	Adjusted 1985 beginning balance as a percent of total wages in State [3]
Alabama	$188			1.0
Alaska	156			2.7
Arizona	233			1.3
Arkansas	38			0.4
California	2,854			1.4
Colorado	33	$62	−$29	−0.1
Connecticut	109	197	−88	−0.3
Delaware	60	35	25	0.5
District of Columbia	24	43	−19	−0.2
Florida	1,108			1.7
Georgia	483			1.3
Hawaii	146			2.4
Idaho	45			1.0

TABLE 2.—STATE UNEMPLOYMENT TRUST FUND ACCOUNT BALANCES AT THE BEGINNING OF FISCAL YEAR 1985—Continued

[Dollars in millions]

State	1985 beginning balance	Minus loans outstanding at beginning of 1985	1985 adjusted beginning balances	Adjusted 1985 beginning balance as a percent of total wages in State [3]
Illinois	0	1,725	−1,725	−2.1
Indiana	243			0.7
Iowa	0	49	−49	−0.3
Kansas	235			1.6
Kentucky	58	79	−21	−0.1
Louisiana	16	491	−475	−1.8
Maine	52			0.9
Maryland	212			0.8
Massachusetts	753			1.6
Michigan	2	1,658	−1,656	−2.6
Minnesota	([1])	217	−217	−0.8
Mississippi	269			2.5
Missouri	84			2.6
Montana	7	9	−2	−0.1
Nebraska	73			0.9
Nevada	134			1.9
New Hampshire	90			1.4
New Jersey	455	322	133	0.8
New Mexico	91			1.3
New York	1,318			0.9
North Carolina	562			1.6
North Dakota	2			0.1
Ohio	0	1,450	−1,450	−2.0
Oklahoma	88			0.5
Oregon	192			1.2
Pennsylvania	0	2,004	−2,004	−2.7
Puerto Rico	75	36	−39	−0.6
Rhode Island	86	76	10	0.2
South Carolina	70			0.4
South Dakota	25			0.9
Tennessee	261			1.0
Texas	0	411	−411	−0.4
Utah	85			1.0
Vermont	10	19	−9	−0.3
Virginia	257			0.8

TABLE 2.—STATE UNEMPLOYMENT TRUST FUND ACCOUNT BALANCES AT THE BEGINNING OF FISCAL YEAR 1985—Continued

[Dollars in millions]

State	1985 beginning balance	Minus loans outstanding at beginning of 1985	1985 adjusted beginning balances	Adjusted 1985 beginning balance as a percent of total wages in State [3]
Virgin Islands	1	4	−3	−0.6
Washington	85			0.3
West Virginia	52	308	−256	−2.7
Wisconsin	162	596	−434	−1.4
Wyoming	22			0.7
Total [2]	11,604	9,791	−8,717	

[1] Less than $500,000.

[2] Figures may not correspond exactly in U.S. Treasury data because of rounding.

[3] Total wages in the State for the year ending June 30, 1983.

Source: U.S. Departments of Labor and Treasury.

The four Federal accounts are: (1) the Employment Security Administration Account (ESAA), which funds administration; (2) the Extended Unemployment Compensation Account (EUCA), which funds the Federal half of the extended benefits program; (3) the Federal Unemployment Account (FUA), which funds loans to insolvent State UC programs; and (4) the Federal Employee Compensation Account (FECA), which funds benefits for Federal civilian and military personnel authorized under 5 U.S.C. 85. Federal unemployment taxes finance the ESAA, EUCA, and FUA, but general revenues finance the FECA. Present law authorizes loans to ESAA, EUCA, and FUA from the general fund, which are interest-free for EUCA and FUA, but interest-bearing for ESAA.

Table 3 summarizes the financial status of these Federal accounts at the beginning of fiscal year 1985. The EUCA and FUA owed the general fund about $14.7 billion. This is a decrease of $6.0 billion or 29 percent below the prior year.

TABLE 3.—BALANCES IN THE FEDERAL ACCOUNTS OF THE UNEMPLOYMENT TRUST FUND AT THE BEGINNING OF FISCAL 1985

[In millions of dollars]

Accounts	Beginning balance	Minus general fund advances	Net beginning balance
Employment Security Administration	961	0	961
Extended unemployment compensation	8	−4,120	−4,112
Federal unemployment (State loans)	1,476	−10,600	−9,124
Federal employee compensation	55	0	55
Total	2,500	−14,720	−12,220

Source: U.S. Department of Treasury.

BENEFITS

Coverage

In order to qualify for benefits, an unemployed person usually must have worked recently for a covered employer for a specified period of time and for a certain amount of wages. About 90 million individuals are covered by UC. This is approximately 97 percent of all wage and salary workers or about 9 out of 10 employed persons.

The Federal Unemployment Tax Act (FUTA) covers certain employers that State laws must also cover for employers in the States to qualify for the 5.4 percent Federal credit. Since employers in the States would lose this credit and their employees would not be covered if the States did not have this coverage, all States cover the following groups: (1) Except for nonprofit organizations, State-local governments, certain agricultural labor, and certain domestic service, FUTA covers employers who paid wages of at least $1,500 during any calendar quarter or who employed at least one worker in at least 1 day of each of 20 weeks in the current or prior year; (2) FUTA covers agricultural labor for employers who paid cash wages of at least $20,000 for agricultural labor in any calendar quarter or who employed 10 or more workers in at least 1 day in each of 20 different weeks in the current or prior year. In addition, section 3306(c)(1) of FUTA exempts certain alien farmworkers until January 1986; and (3) FUTA covers domestic service employers who paid cash wages of $1,000 or more for domestic service during any calendar quarter in the current or prior year.

FUTA requires coverage of nonprofit organization employers of at least four workers for 1 day in each of 20 different weeks in the current or prior year and State-local governments without regard to the number of employees. Nonprofit and State-local government organizations are not, however, required to pay Federal unemployment taxes, but instead may choose to reimburse the system for benefits paid to their laid off employees.

States may cover certain employment not covered by FUTA, but most States have not expanded FUTA coverage significantly. The excluded coverage involves: (1) self-employment; (2) certain agricultural labor and domestic service; (3) service for relatives; (4) service of patients in hospitals; (5) certain student interns; (6) certain alien farmworkers; and (7) certain seasonal camp workers.

The number of covered workers receiving unemployment compensation

Although the unemployment compensation (UC) system covers about 90 percent of the employed, table 4 shows that only about 38 percent of the unemployed received UC benefits in December 1984. This compares with a peak of 81 percent of the unemployed receiving UC benefits in April 1975 and a low point of about 30 percent in June 1984. Many other countries compensate unemployed persons at much higher rates. For example, in August 1984, Sweden, Germany, and Japan compensated over 60 percent of their unemployed while the comparable figure in the United States was 31 percent.

TABLE 4.—INSURED UNEMPLOYMENT AS A PERCENT OF TOTAL UNEMPLOYMENT

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
1974.....	53	54	57	60	55	40	43	44	40	42	48	60	50
1975.....	66	73	77	81	79	72	77	79	73	74	76	80	76
1976.....	78	75	76	73	72	58	66	66	60	59	60	63	67
1977.....	67	66	66	66	59	46	52	49	47	48	49	57	56
1978.....	54	54	50	47	44	36	39	42	35	37	34	43	43
1979.....	48	48	47	47	42	33	39	38	37	38	40	49	42
1980.....	52	51	53	52	49	45	49	49	55	49	50	54	50
1981.....	54	50	48	46	40	35	37	37	36	34	38	41	41
1982.....	47	44	48	49	45	40	42	42	43	48	49	47	45
1983.....	50	53	51	53	53	40	39	36	34	33	39	41	44
1984.....	40	38	38	36	34	30	31	31	30	31	31	38	34

Source: USDOL/ETA/UIS, Division of Actuarial Services.

Eligibility

States have developed diverse and complex methods for determining unemployment compensation eligibility. In general there are three major factors: (1) the amount of recent employment and earnings; (2) demonstrated ability and willingness to seek and accept suitable employment; and (3) certain disqualifications related to a claimant's most recent job separation or job offer refusal.

Monetary qualifications

Table 5 shows the State monetary qualification requirements in the base year for the minimum and maximum weekly benefit amounts, and for the maximum total potential benefits. The base year is a recent 1-year period that most States (39) define as the first 4 of the last 5 completed calendar quarters before the unemployed person claims benefits. Most States require employment in at least 2 calendar quarters of the base year. Qualifying wages for the minimum weekly benefit amount vary from $150 in Hawaii to $3,000 in Oklahoma. For the maximum weekly benefit amount, the range is $2,442 in Indiana to $21,424 in Colorado. The range of qualifying wages for the maximum total potential benefits, which is the product of the maximum weekly benefit amount and the maximum potential weeks of benefits, is $3,800 in Puerto Rico to $21,424 in Colorado.

TABLE 5.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS IN 1985 [1]

State	Required total earnings in base year			Minimum work in base year (quarters) [3]
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits [2]	
Alabama	$774	$4,302	$9,358	2Q
Alaska	1,000	19,750	19,750	2Q
Arizona	1,500	4,294	8,968	2Q
Arkansas	1,400	8,008	11,550	2Q
California	1,200	5,533	8,630	....
Colorado	1,000	21,424	21,424	....
Connecticut	600	7,200	7,200	2Q
Delaware	720	12,870	12,870	....
District of Columbia	900	7,071	10,712	2Q
Florida	400	6,000	15,601	2Q
Georgia	413	4,687	12,998	2Q
Hawaii	150	5,820	5,820	2Q
Idaho	1,716	6,747	15,743	2Q
Illinois	1,600	4,786	4,786	2Q
Indiana	1,500	2,442	8,736	2Q
Iowa	770	4,111	11,151	2Q
Kansas	1,290	5,250	13,650	2Q
Kentucky	1,500	11,772	11,772	2Q
Louisiana	300	7,669	13,325	2Q
Maine	2,047	5,105	10,840	2Q
Maryland	900	6,336	6,336	2Q
Massachusetts	1,200	5,880	16,333	....
Michigan	2,010	8,620	15,085	2Q
Minnesota	1,305	5,940	14,652	2Q
Mississippi	1,200	4,600	8,970	2Q
Missouri	450	4,000	9,360	2Q
Montana	1,000	6,840	14,449	2Q
Nebraska	600	3,100	9,357	2Q
Nevada	600	6,075	12,636	2Q
New Hampshire	1,700	19,500	19,500	2Q
New Jersey	1,020	7,165	12,539	2Q
New Mexico	975	4,875	6,500	2Q
New York	1,600	7,180	7,180	2Q

TABLE 5.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS IN 1985[1]—Continued

State	Required total earnings in base year			Minimum work in base year (quarters)[3]
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits[2]	
North Carolina	1,675	6,513	13,026	2Q
North Dakota	2,340	7,215	14,238	2Q
Ohio	1,702	5,880	7,644	2Q
Oklahoma	3,000	7,387	7,000	2Q
Oregon	1,000	16,320	16,320	2Q
Pennsylvania	1,320	8,880	8,880	2Q
Puerto Rico	280	3,800	3,800	2Q
Rhode Island	1,340	6,327	13,287	2Q
South Carolina	900	4,875	9,750	2Q
South Dakota	1,568	7,224	10,059	2Q
Tennessee	1,463	7,561	12,480	2Q
Texas	1,050	7,050	18,196	2Q
Utah	1,300	7,254	17,911	2Q
Virgin Islands	396	3,900	3,900	2Q
Vermont	700	5,820	5,820	2Q
Virginia	2,700	7,500	15,000	2Q
Washington	1,237	4,625	16,650	
West Virginia	1,150	21,350	21,350	2Q
Wisconsin	2,106	7,020	12,870	2Q
Wyoming	960	7,320	15,860	2Q

[1] Based on benefits for total unemployment. Amounts payable can be stretched out over a longer period in the case of partial unemployment.

[2] Based on maximum weekly benefit amount paid for maximum number of weeks. Total potential benefits equal a worker's weekly benefit amount times this potential duration.

[3] Number of quarters of work in base year required to qualify for minimum benefits. "2Q" denotes that State directly or indirectly requires work in at least 2 quarters of the base year. States without an entry have the minimum work requirement specified as a wage amount.

Source: U.S. Department of Labor.

Since the beginning of 1984, 10 States increased the required earnings in the base year to qualify for the minimum weekly benefit amount. Thirty-three States increased the qualification requirement for the maximum weekly benefit amount. Thirty States increased their qualification requirements for maximum potential benefits while one State cut these requirements.

Ability to work and availability for work

All State laws provide that a claimant must be: (1) able to work; and (2) available for work. A claimant must meet these conditions continually to receive benefits.

Only minor variations exist in State laws setting forth the requirements concerning "ability to work." A few States specify that a claimant must be mentally and physically able to work.

"Available for work" is often translated to mean being ready, willing, and able to work. In addition to registration for work at a local employment office, most State laws require that a claimant actively seek work or make a reasonable effort to obtain work. Generally, a person may not refuse an offer of or referral to "suitable work" without good cause.

"Suitable work" is generally work in a claimant's customary occupation, which meets certain health, safety, moral, and labor standards. Most State laws list certain criteria by which the "suitability" of a work offer is to be tested. The usual criteria include the degree of risk to a claimant's health, safety, and morals; the physical fitness and prior training, experience, and earnings of the person; the length of unemployment and prospects for securing local work in a customary occupation; and the distance of the available work from the claimant's residence. Generally, as the length of unemployment increases the claimant is required to accept a wider range of jobs.

In addition, Federal law requires States to deny benefits provided under the extended benefit and Federal supplemental compensation programs to any individual who fails to accept any work that is offered in writing or is listed with the State employment service, or fails to apply for any work to which he or she is referred by the State agency, if the work is within the person's capabilities, pays wages equal to the highest of the Federal or any State or local minimum wage, pays a gross weekly wage that exceeds the person's average weekly unemployment compensation benefits plus any supplemental unemployment compensation (usually private) payable to the individual, and is consistent with the State definition of "suitable" work in other respects.

States must refer extended benefits claimants to any job meeting these requirements. If the State, based on information provided by the individual, determines that the individual's prospects for obtaining work in his or her customary occupation within a reasonably short period are good, the determination of whether any work is "suitable work" is made in accordance with State law rather than the above.

There are certain circumstances under which Federal law provides that State and extended benefits may not be denied. A State may not deny benefits to an otherwise eligible individual for refusing to accept new work under any of the following conditions: (1) If the position offered is vacant due directly to a strike, lockout, or other labor dispute; (2) if the wages, hours, or other conditions of the work offered are substantially less favorable to the individual than in those prevailing for similar work in the locality; (3) if as a condition of being employed the individual would be required to join a company union or to resign from or refrain from joining any bona fide labor organization. Further, benefits may not be denied solely on the grounds of pregnancy. The State is prohibited from canceling wage credits or totally denying benefits except in cases of misconduct, fraud, or receipt of disqualifying income.

There are also certain conditions under which Federal law requires that benefits be denied. For example, benefits must be denied to employees of education institutions during summer (and other vacation periods) if they have a reasonable assurance of reemployment; to professional athletes between sport seasons; and to aliens not legally admitted to work in the United States.

Disqualifications

The major causes for disqualification from benefits are not being able to work or available for work, voluntary separation from work without good cause, discharge for misconduct connected with the work, refusal of suitable work without good cause, and unemployment resulting from a labor dispute. Disqualification for one of these reasons may result in a postponement of benefits for some prescribed period, a cancellation of benefit rights, or a reduction of benefits otherwise payable.

Of the 17.2 million "monetarily eligible" initial UI claims in fiscal year 1984, 19.5 percent were disqualified. This figure subdivides into 5.1 percent for not being able to work or available for work, 5.1 percent for voluntarily leaving a job without good cause, 3.2 percent for being fired for misconduct on the job, 0.2 percent for refusing suitable work, and 5.9 percent for committing other disqualifying acts. The total disqualification rate ranged from a low of 4.1 percent in Tennessee to a high of 76 percent in Nebraska with Colorado the next highest at 52 percent. (Note that a claimant can be disqualified for any week claimed so that it is possible for a claimant to be disqualified more times than the total number of his initial claims in his benefit year.)

Federal law requires that benefits provided under the extended benefits program and the Federal Supplemental Compensation program will be denied to an individual for the entire spell of his or her unemployment if he or she was disqualified from receiving State benefits because of voluntarily leaving employment, discharge for misconduct, or refusal of suitable work. These benefits will be denied even though the disqualification was subsequently lifted with respect to the State benefits prior to reemployment. The person could receive these benefits, however, if the disqualification is lifted because he or she became reemployed and met the work or wage requirement of State law.

Ex-service members

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) established new requirements for the payment of benefits to ex-service members under the unemployment compensation for ex-service members (UCX) program. Under the act, benefits were limited to individuals who (1) had 365 or more days of military service; (2) were discharged or released under honorable conditions; (3) did not resign or voluntarily leave the service (i.e., they were not eligible for reenlistment); and (4) were not released or discharged "for cause" as defined by the Department of Defense. The requirements applied to individuals who left Federal military service on or after July 1, 1981, but only for weeks of unemployment that began on or after August 13, 1981, the date of enactment of Public Law 97-35.

The Miscellaneous Revenue Act of 1982 (Public Law 97-362) modified the above eligibility requirements for ex-service members. Federal unemployment benefits are now payable to unemployed ex-service members who: (1) are separated under honorable conditions (and, in the case of officers, did not resign for the good of the service); and (2) have completed the first full term of active service they agreed to serve. Ex-service members who are separated prior to completing their first full term of active service can qualify for unemployment compensation benefits if they are separated under honorable conditions: (a) for the convenience of the Government under an early release program; (b) because of medical disqualification, pregnancy, parenthood, or any service-incurred injury or disability; (c) because of hardship; or (d) if they have served for 365 continuous days, because of personality disorder or inaptitude. In addition to these eligibility requirements, ex-service members must wait 4 weeks from the date of their separation from the service before they may receive benefits. The maximum number of weeks of benefits an ex-service member may receive based on his employment in the military is 13. These eligibility provisions are effective for separations from the service on or after July 1, 1981, but only for weeks of unemployment beginning on or after October 25, 1982.

Pension offset

The Unemployment Compensation Amendments of 1976 (Public Law 94-566) required all States to reduce an individual's unemployment compensation benefits by the amount of any governmental or private pension or retirement pay received by the individual. Public Law 96-364 modified this offset requirement.

Under current law, States are required to make the offset only in those cases in which the work-related pension was maintained or contributed to by a "base period" or "chargeable" employer. Entitlement to, and the amount and duration of, unemployment benefits are based on work performed during this State-specified base period. A "chargeable" employer is one whose account will be charged for unemployment compensation received by the individual.

States are allowed to reduce the amount of the offset by an amount consistent with any contribution the employee made toward the pension. For example, this allows States to limit the offset to one-half of the amount of a social security pension received by an individual who qualifies for unemployment benefits.

Taxation of unemployment insurance benefits

The amount of unemployment insurance benefits subject to Federal tax is, generally, an amount equal to the lower of the amount of unemployment compensation or one-half the excess of adjusted gross income, unemployment insurance payments, and excludable disability income over $12,000 for single taxpayers, over $18,000 for married taxpayers filing jointly, and over zero for married taxpayers filing separately. The threshold under prior law was $20,000 for single taxpayers and $25,000 for married taxpayers filing jointly.

The following is an example of how to compute the amount of unemployment compensation subject to Federal income tax for a husband and wife filing jointly:

Adjusted gross income	$17,000
Unemployment compensation	2,000
Excludable disability income	0

In determining the amount of unemployment compensation subject to Federal income tax, the taxpayer first adds adjusted gross income ($17,000) plus unemployment compensation ($2,000) plus excludable disability income ($0). This equals $19,000 in this example.

The amount of unemployment compensation subject to Federal income tax is the lesser of:

(1) the total amount of unemployment compensation ($2,000 in this example); or

(2) one-half the excess of adjusted gross income, unemployment compensation, and excludable disability income over $18,000. The excess is $1,000 in this example ($19,000 minus $18,000). One-half the excess equals $500.

The amount of unemployment compensation subject to Federal income tax for this taxpayer is $500. This amount would be added to their adjusted gross income, giving them a total adjusted gross income of $17,500.

Amount and duration of weekly benefits

In general, the States set weekly benefit amounts as a fraction of the individual's average weekly wage up to some State-determined maximum. Generally, the total maximum duration available under current law, including the temporary Federal supplemental compensation program, is between 34 and 53 weeks. The permanent, regular State programs usually provide up to 26 weeks. (Only Puerto Rico provides fewer weeks, providing a maximum of 20 weeks of benefits.) The permanent Federal-State extended benefits program provides up to 13 additional weeks in States where unemployment rates are relatively high. The temporary Federal supplemental compensation (FSC) program provides up to 8 to 14 additional weeks in all States, depending on insured unemployment rates in each State. The FSC program expires, however, after March 31, 1985.

The State-determined weekly benefit amounts generally replace between 50 and 70 percent of the individual's average weekly pretax wage up to some State-determined maximum. The average weekly wage is often calculated only from the calendar quarter in the base year in which the claimant's wages were highest. The State-determined maximum weekly benefit amounts generally vary between 50 and 70 percent of the average weekly covered wage in each State. Individual wage replacement rates tend to vary inversely with the claimant's average weekly pretax wage with high wage earners receiving lower wage replacement rates. Partly as a result, the national average weekly benefit amount as a percent of the average weekly covered wage was only 35 percent in fiscal year 1984.

Table 6 shows the minimum and maximum weekly benefit amounts and potential duration for each State program. In fiscal year 1984, the national average weekly benefit amount was $119 and the average duration was 15.0 weeks, making the average total benefits $1,785. The minimum weekly benefit amounts for 1985 vary from $5 in Hawaii to $62 in Alaska. The maximum weekly benefit amounts range from $84 in Indiana to $294 in Massachusetts. Most States vary the duration of benefits with the amount of earnings the claimant has in his base year. Ten States provide the same duration, however, for all claimants. The minimum durations range from 1 week in Wisconsin to 28 weeks in West Virginia. The maximum duration is 26 weeks in 49 States. Only Puerto Rico has a maximum duration of fewer than 26 weeks at 20 weeks and 3 States have maximum durations higher than 26 weeks up to 30 weeks in Massachusetts and Washington.

Since the beginning of 1984, 13 States increased their minimum weekly benefit amounts and 1 State reduced its minimum amount. Thirty-two States raised their maximum weekly benefit amounts. Also, two States lowered their minimum potential duration and three States increased it. No State changed its maximum duration.

TABLE 6.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS

State	1985 weekly benefit amount[1]		1984 average weekly benefit	1985 potential duration (weeks)		1984 average duration (weeks)
	Minimum	Maximum		Minimum	Maximum	
Alabama	$22	$120	$93	11	26	11
Alaska	38–62	188–260	137	16	26	14
Arizona	40	115	101	12	26	14
Arkansas	40	154	94	12	26	12
California	30	166	111	12	26	16
Colorado	25	206	147	7	26	13
Connecticut	15–22	180–230	132	26	26	12
Delaware	20	165	112	18	26	12
District of Columbia	26	206	144	17	26	19
Florida	10	150	102	10	26	12
Georgia	27	125	100	4	26	9
Hawaii	5	194	136	26	26	14
Idaho	45	173	119	10	26	12
Illinois	51	161–209	[2]134	26	26	18
Indiana	40	84–141	91	9	26	13
Iowa	22–27	143–176	129	11	26	13
Kansas	43	175	128	10	26	13
Kentucky	22	140	99	15	26	15
Louisiana	10	205	153	12	26	18
Maine	22–27	139–208	111	7	26	17
Maryland	25–28	175	122	26	26	14
Massachusetts	14–21	196–294	127	9	30	15
Michigan	54	197	145	15	26	12
Minnesota	52	198	145	11	26	14
Mississippi	30	115	87	13	26	14
Missouri	14	120	92	10	26	11
Montana	42	171	132	8	26	13

TABLE 6.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS—Continued

State	1985 weekly benefit amount[1]		1984 average weekly benefit	1985 potential duration (weeks)		1984 average duration (weeks)
	Minimum	Maximum		Minimum	Maximum	
Nebraska	12	120	101	17	26	12
Nevada	16	162	124	12	26	14
New Hampshire	26	141	110	26	26	9
New Jersey	20	203	128	15	26	16
New Mexico	30	150	111	19	26	17
New York	40	180	121	26	26	19
North Carolina	15	167	102	13	26	8
North Dakota	60	185	138	12	26	14
Ohio	10	147–233	139	20	26	15
Oklahoma	16	197	133	20	26	13
Oregon	47	204	125	7	26	15
Pennsylvania	35–40	224–232	142	16	26	17
Puerto Rico	7	95	65	20	20	NA
Rhode Island	37–42	174–194	114	12	26	14
South Carolina	21	125	92	14	26	10
South Dakota	28	129	105	18	26	10
Tennessee	30	120	86	12	26	12
Texas	29	189	138	12	26	14
Utah	46	186	132	10	26	12
Vermont	18	146	112	26	26	14
Virginia	54	150	108	12	26	8
Virgin Islands	15	130	103	26	26	17
Washington	51	185	137	16	30	16
West Virginia	18	225	125	28	28	18
Wisconsin	37	196	134	1	26	14
Wyoming	34	183	121	12	26	15

[1] A range of amounts is shown for those States which provide dependents allowances.

[2] Effective beginning in February 1984.

NA: Not available.

Source: U.S. Department of Labor.

EXTENDED BENEFITS

The extended benefits program provides one-half of a claimant's total State benefits up to 13 weeks in States with an activated program for a combined maximum of 39 weeks of regular and extended benefits. Weekly benefit amounts are identical to the State benefits for each claimant. The program activates in a State under two conditions: (1) if the State's 13-week average insured unemployment rate (IUR) in the most recent weeks is at least 120 percent of the average of its 13-week IUR's in the last 2 years for the same 13-

week calendar period and its current 13-week average IUR is at least 5.0 percent; or (2) at State option, if its current 13-week average IUR is at least 6.0 percent. Only 13 State programs have not adopted the second, optional condition. The 13-week average IUR is the ratio of the average number of insured unemployed persons under the regular State programs in the last 13 weeks to the average covered employment in the first 4 of the last 6 completed calendar quarters. Table 7 shows the 13-week IUR's by State for the first week in January 1982, 1983, 1984, and 1985. As indicated in the last column, there was one State (Alaska) and Puerto Rico with an activated EB program in the first week of January 1985.

TABLE 7.—STATE EXTENDED BENEFIT INDICATORS FOR THE FIRST WEEK IN JANUARY 1982, 1983, 1984, AND 1985, AND EB AND FSC BENEFIT WEEKS FOR JANUARY 1985

	13-week insured unemployment rate				Percent of prior 2 years	LIUR [1]	FSC weeks	EB weeks
	1982	1983	1984	1985				
Alabama	4.31	6.00	3.79	3.69	76	4.71	12	0
Alaska	6.85	6.89	6.10	6.18	95	6.31	14	13
Arizona	2.49	4.36	2.19	1.54	47	3.24	8	0
Arkansas	4.84	6.08	3.75	3.93	78	4.83	12	0
California	3.84	5.32	3.86	3.36	73	4.64	12	0
Colorado	2.05	3.45	2.60	1.91	61	2.91	8	0
Connecticut	2.55	3.42	2.06	1.54	56	2.91	8	0
Delaware	3.41	3.17	2.01	1.49	57	2.89	8	0
Dist. of Col.	2.03	3.82	2.55	2.09	65	3.27	8	0
Florida	1.79	2.58	1.48	1.32	65	2.04	8	0
Georgia	2.97	3.46	1.91	1.84	68	2.65	8	0
Hawaii	3.29	3.58	3.13	3.26	97	3.33	8	0
Idaho	5.83	6.81	4.64	3.92	68	6.07	14	0
Illinois	4.09	5.84	3.61	2.94	61	4.91	12	0
Indiana	3.75	5.18	2.63	2.46	63	4.00	8	0
Iowa	3.10	4.25	2.63	2.74	79	3.92	8	0
Kansas	2.41	4.26	2.47	2.21	65	3.32	8	0
Kentucky	4.63	5.92	3.59	3.12	63	5.11	12	0
Louisiana	2.79	5.36	4.22	3.89	81	4.79	12	0
Maine	4.00	4.42	3.78	3.41	83	4.48	10	0
Maryland	3.40	4.26	2.69	2.10	60	3.61	8	0
Massachusetts	3.45	3.93	2.48	2.14	67	3.35	8	0
Michigan	6.18	7.43	3.39	3.37	61	5.64	14	0
Minnesota	2.87	4.05	2.56	2.29	69	3.48	8	0
Mississippi	4.31	6.19	3.63	3.69	74	5.15	12	0
Missouri	3.76	4.32	2.84	2.36	65	3.70	8	0
Montana	4.13	4.89	4.26	3.86	85	4.94	12	0
Nebraska	2.06	1.77	2.20	1.84	74	2.68	8	0
Nevada	3.66	4.92	3.27	2.81	68	4.09	8	0
New Hampshire	2.06	2.87	1.45	1.06	49	2.30	8	0

TABLE 7.—STATE EXTENDED BENEFIT INDICATORS FOR THE FIRST WEEK IN JANUARY 1982, 1983, 1984, AND 1985, AND EB AND FSC BENEFIT WEEKS FOR JANUARY 1985—Continued

	13-week insured unemployment rate				Percent of prior 2 years	LIUR[1]	FSC weeks	EB weeks
	1982	1983	1984	1985				
New Jersey	4.15	4.24	3.11	2.79	74	4.07	8	0
New Mexico	2.57	4.07	3.22	2.75	75	3.72	8	0
New York	3.34	3.85	3.08	2.70	78	3.57	8	0
North Carolina	3.69	4.58	2.21	2.48	73	3.48	10	0
North Dakota	2.15	3.20	2.67	2.65	86	3.49	8	0
Ohio	4.79	6.06	3.21	3.06	66	4.80	12	0
Oklahoma	1.44	4.06	2.09	2.14	69	2.84	8	0
Oregon	6.55	6.63	4.81	4.31	75	6.12	14	0
Pennsylvania	4.78	7.30	4.73	4.04	67	6.05	14	0
Puerto Rico	8.67	8.96	6.63	6.53	83	7.83	11	10
Rhode Island	4.85	5.24	3.53	3.17	72	5.04	12	0
South Carolina	4.38	5.63	2.58	2.98	71	4.12	8	0
South Dakota	2.00	2.08	1.10	1.23	74	1.88	8	0
Tennessee	4.39	4.53	2.79	2.76	72	3.95	8	0
Texas	0.99	2.85	1.88	1.50	62	2.11	8	0
Utah	3.03	4.83	2.75	2.54	67	4.03	8	0
Vermont	3.80	4.99	3.38	2.86	68	4.50	12	0
Virgin Islands	1.87	4.18	1.23	1.26	71	1.93	8	0
Virginia	3.48	2.30	3.67	3.71	94	4.40	8	0
Washington	5.53	6.60	5.03	4.41	74	5.91	14	0
West Virginia	4.72	8.59	5.55	5.66	78	7.17	14	0
Wisconsin	4.91	5.74	3.93	3.34	73	5.10	12	0
Wyoming	1.79	4.54	3.10	1.68	43	3.97	8	0
U.S. average	3.90	5.23	3.26	2.93	NA	NA	NA	NA

[1] Long term IUR computed for weeks beginning on or after Jan. 1, 1982, and before October 1, 1983.

NA—Not available.

Source: U.S. Department of Labor.

FEDERAL SUPPLEMENTAL COMPENSATION

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) established the Federal supplemental compensation program (FSC) which provides additional weeks of unemployment compensation to individuals who have exhausted their regular State benefits and any extended benefits to which they were entitled. Weekly benefit amounts are identical to regular State program benefits for each claimant. As originally enacted, the FSC program provided 10, 8, or 6 additional weeks of benefits. The Surface Transportation Assistance Act of 1982 (Public Law 97-424) increased the maximum number of weeks of FSC benefits to 16, 14, 12, 10, or 8, depending on the State where the individual qualified for the benefits between September 12, 1982 and March 31, 1983. The program was extended from March 31, 1983, through September 30, 1983, by the Social Security Amendments of 1983 (Public Law 98-21) and provided 8 to 14 weeks of benefits during this period. Public Law 98-118 extended the program for 3 weeks from September 30, 1983, through the week of October 16, 1983.

Current law

The Federal Supplemental Compensation Amendments of 1983 (Public Law 98-135) extended the FSC program from the week of October 23, 1983, through the week of March 31, 1985. After this date, no FSC benefits are payable.

Basic FSC benefits.—Under this extension the number of basic weeks of FSC payable in the States ranges from 8 to 14 weeks. The maximum in each State is determined by the State's moving 13 week average insured unemployment rate (IUR), as determined in the current extended benefit and FSC programs, *or* the State's cumulative average IUR since January 1, 1982, and through the second preceding calendar quarter. (To determine basic FSC weeks payable the week of October 23, 1983, the first week of this extension, the cumulative average IUR included the weeks of January 1, 1982 through June 1983.)

A maximum of:

(a) 14 weeks is payable in States with a moving 13 week average insured unemployment rate (IUR) of at least 6.0 percent *or* a cumulative average IUR since January 1, 1982 of at least 5.5 percent.

(b) 12 weeks is payable in States with a moving 13 week average IUR 5.0 to 5.9 percent *or* a cumulative average IUR since January 1, 1982 of 4.5 to 5.4 percent.

(c) 10 weeks is payable in States with a moving 13 week average IUR 4.0 to 4.9 percent.

(d) 8 weeks is payable in all other States.

Unemployed workers who first apply for FSC benefits for or after the week of October 23, 1983 receive weeks of FSC benefits equal to 55 percent of the number of weeks of regular State unemployment benefits they received, up to the maximum number of basic FSC benefits payable in the State in the week in which they first file their claims.

The long term insured unemployment rate and the maximum number of weeks of FSC payable in each State is shown in Table 7.

Limitation on reduction of basic weeks payable in a State.—Beginning with the week of October 23, 1983, (a) the maximum number of basic weeks payable in a State will be adjusted (up or down) no more frequently than every 13 weeks; and (b) a single adjustment shall not exceed 2 weeks.

Limitation on reduction of FSC weeks payable to individuals.—Beginning with the week of October 23, 1983, individuals will continue to be eligible for the number of FSC weeks to which they were entitled at the time they first qualified for FSC, regardless of changes (up or down) in the number of basic weeks payable in the State. As under current law, an individual who makes an interstate claim for FSC benefits will receive the lesser of (a) the number of weeks of FSC payable in the State in which he receives the benefits or (b) the maximum number of weeks payable in his or her former State.

HYPOTHETICAL WEEKLY BENEFIT AMOUNTS FOR VARIOUS WORKERS IN THE REGULAR STATE PROGRAMS

The following table (table 8) illustrates the amount of benefits various full-year workers can receive in regular State programs. All of the benefit amounts are for January 1984. The first column A of the table is for a full-time worker earning the minimum wage; the second column B is for a worker earning $6 per hour, while the third column C shows benefit amounts for a worker earning $9 per hour. The final column D is a part-time worker earning the minimum wage and working 20 hours per week. The weekly benefit amount for the minimum wage worker varies from $29 to $139. The maximum amount a worker can receive in these examples (column C) in each State varies considerably, from $80 to $228 per week.

TABLE 8.—WEEKLY BENEFIT AMOUNT FOR VARIOUS FULL-YEAR WORKERS IN SELECTED STATES IN JANUARY 1984

	A	B	C	D
Alabama	73	120	120	36
Arkansas	67	120	136	33
Alaska	104	148	228	76
Arizona	70	115	115	
California	68	105	142	38
Colorado	80	144	180	41
Connecticut	77	130	198	44
Delaware	29	53	80	20
District of Columbia	76	136	204	38
Florida	67	120	150	33
Georgia	69	124	125	34
Hawaii	70	125	188	35
Idaho	67	120	159	
Illinois	74	122	209	37
Indiana	75	99	128	
Iowa	79	141	176	39
Kansas	75	133	163	40
Kentucky	83	140	140	41
Louisiana	70	125	188	35
Maine	84	138	148	45
Maryland	73	130	165	37
Massachusetts	67	120	192	33
Michigan	76	126	188	
Minnesota	70	120	180	40
Mississippi	67	105	105	34
Missouri	79	105	105	40

TABLE 8.—WEEKLY BENEFIT AMOUNT FOR VARIOUS FULL-YEAR WORKERS IN SELECTED STATES IN JANUARY 1984—Continued

	A	B	C	D
Montana	67	120	166	41
Nebraska	72	120	120	38
Nevada	69	124	158	34
New Hampshire	83	117	141	46
New Jersey	90	161	161	45
New Mexico	67	120	145	34
New York	67	120	170	35
North Carolina	67	120	166	34
North Dakota	67	120	172	....
Ohio	67	120	187	34
Oklahoma	69	124	185	34
Oregon	87	156	197	46
Pennsylvania	77	132	197	43
Puerto Rico	67	84	84	34
Rhode Island	78	137	184	42
South Carolina	67	118	118	34
South Dakota	67	120	129	33
Tennessee	112	115	115	67
Texas	70	125	182	35
Utah	68	121	166	34
Virgin Islands	70	125	130	35
Vermont	67	120	146	34
Virginia	69	124	138	....
Washington	139	185	185	69
West Virginia	74	131	197	37
Wisconsin	67	120	180	34
Wyoming	69	124	157	34

A. $3.35/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
B. $6.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
C. $9.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; 2 children.
D. $3.35/hr. wage; 20 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.

Source: U.S. Department of Labor.

FINANCING

The Federal unemployment tax

Total unemployment taxes on employers for a full-time, full-year worker earning at least $7,000 in 1985 probably will average about $252 or 12 cents per hour. The Federal portion is $56 or 3 cents per hour and the average State portion is about $196 or 9 cents per hour. Employer taxes will vary substantially, however, depending on the State taxable wage base, State tax rates, and reduced Federal credits.

The Federal Unemployment Tax Act (FUTA) currently imposes a minimum, net Federal payroll tax on employers of 0.8 percent on the first $7,000 paid annually to each employee. The gross FUTA tax rate is 6.2 percent, but employers in States meeting certain Federal requirements and having no delinquent Federal loans are eligible for a 5.4 percent credit, making the minimum, net Federal tax rate 0.8 percent.

Employers in States with delinquent Federal loans may face increases in their FUTA tax rate stemming from automatic reductions in the FUTA credit. States with outstanding loans from the Federal Government must repay them fully by November 10 of the calendar year in which the second consecutive January first passes with the State still having an outstanding loan. This means that a State may have from about 22 to 34 months to repay the loan without penalty, depending on when it obtained the outstanding loan. If it does not repay fully by the appropriate November 10, it becomes subject to an annual credit reduction beginning with the preceding January 1 until the State repays the loan fully. Employers must pay the additional taxes resulting from the credit reduction no later than January 31 of the next calendar year.

The credit reduction is at least 0.3 percent per year beginning with the calendar year in which the second consecutive January first passes during which the loan is outstanding. There are two potential additional credit reductions during the ensuing calendar years in which a State has an outstanding advance: (1) in the calendar years after which the third and fourth consecutive January firsts pass, the employers in the State face a reduction by the amount that 2.7 percent exceeds the State's average tax rate on taxable wages in the calendar year to which the reduction applies; (2) in the calendar years in which the fifth through ninth consecutive January firsts pass, the employers face a reduction equal to the higher of the amount in (1) or the amount that the State's 5-year benefit cost rate exceeds the State's average tax rate on taxable wages in the calendar year to which the reduction applies. The 5-year benefit-cost rate is one-fifth of the UC benefits paid in the first 5 of the last 6 completed calendar years preceding the calendar year to which the credit reduction applies divided by taxable wages in the last calendar year.

The Omnibus Budget Reconciliation Act of 1981 modified FUTA provisions regarding Federal unemployment loans to the States. States are now charged interest on new loans that are not repaid by the end of the fiscal year in which they are obtained. Under previous law, States could receive these loans interest-free. The interest rate is the same rate as that paid by the Federal Government on State reserves in the Federal Unemployment Trust Fund for the quarter ending December 31 of the preceding year, but not higher than 10 percent per annum. A State may not pay the interest directly or indirectly from funds in their State accounts in the Federal Unemployment Trust Fund.

Employers in 17 States were subjected to a reduction in FUTA offset credit for taxable year 1984. The States were:

Colorado
Connecticut
District of Columbia
Illinois
Iowa
Louisiana

Michigan
Minnesota
New Jersey
Ohio
Pennsylvania
Puerto Rico
Texas
Vermont
Virgin Islands
West Virginia
Wisconsin

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) added a new subsection (f) to section 3302 of FUTA which under certain conditions fully limits the FUTA tax credit reduction to an amount which does not exceed the greater of 0.6 percent of wages subject to FUTA or the percentage reduction that was in effect for the preceding taxable year.

To qualify for a full cap in taxable year 1984, a State must have taken no action in the 12 months ending September 30, 1984, unless required under State law in effect before August 13, 1981, which has resulted or will result in:

(1) A reduction in the State's unemployment tax effort;

(2) A net decrease in the solvency of the State unemployment compensation system;

and, further, that:

(3) The State unemployment tax rate for the calendar year equals or exceeds the average benefit-cost ratio for calendar years in the five-calendar-year period ending with calendar year 1982; and

(4) The outstanding balance of advances to the State on September 30 of calendar year 1983 was not greater than the outstanding balance for such State on September 30, 1981.

Under these criteria four States qualified for the full cap and were subject to reduced FUTA credits for 1984 as follows:

	Percent
Connecticut	0.7
New Jersey	.6
Puerto Rico	.6
Vermont	.6

Section 512(a) of the Social Security Amendments of 1983 (P.L. 98-21) added a new paragraph (8) to section 3302(f) of FUTA which under certain conditions partially limits the FUTA tax credit reduction.

(5) If a State meets the requirements of (1) and (2), and (3) or (4), above, the reduction in credits otherwise applicable to employers in the State for 1983 are reduced by 0.1 percentage point, but not below the higher of 0.6 percent and the rate for the prior year.

(6) If a State meets the requirements of (1) and (2) above, and also meets the requirements of section 1202(b)(8)(B) of the Social Security Act of 1983, the reduction in credits otherwise applicable to employers in the State for 1983 are reduced by 0.2 percentage points, but not below the higher of 0.6 percent and the rate for the prior year.

Under these criteria seven States qualified for a partial cap and were subject to reduced FUTA credits for 1984 as follows:

	Percent
District of Columbia	1.1
Illinois	.8
Michigan	.7
Minnesota	.8
Ohio	.7
Pennsylvania	.8
West Virginia	.7

Four States were not affected by the full or partial cap and were subject to reduced FUTA credits for 1984 as follows:

	Percent
Iowa	0.3
Louisiana	.3
Texas	.3
Virgin Islands	.9

Interest due on State loans from the Federal Unemployment Account can be deferred or reduced if the State meets certain requirements. These interest relief options available to the States are:

(1) High unemployment deferral.—Section 1202(b)(3)(C) of the Social Security Act (SSA) allows a State to defer 75 percent of interest otherwise due if the rate of insured unemployment under the State law for the period consisting of the first 6 months of the preceding calendar year equaled or exceeded 7.5 percent. The State must pay 75 percent of interest otherwise due in three annual installments of at least 25 percent beginning with the year after the year in which it was due. The interest deferred does not accrue interest.

(2) Legislative action deferral.—Section 1202(b)(8) of the SSA allows a State to defer 80 percent of interest otherwise due if the State has taken no action since October 1, 1982, to reduce the State's tax effort or unemployment fund solvency and has taken action after March 31, 1982, which increases revenues to the State's unemployment fund and decreases benefits by at least 25 percent in the calendar year for which the first deferral is requested; deferrals for the second and third years immediately following the year in which the first year change is effective are available if the State produces a solvency effort of at least 35 and 50 percent, respectively. The State must pay 80 percent of interest otherwise due in four annual installments of at least 20 percent beginning with the year after the year in which it was due. Interest does not accrue on deferred interest. This type of deferral is available for 1983, 1984, and 1985 only. Once a deferral is approved, a State must continue to maintain its solvency effort. Failure to do so will result in the State being required to make immediate payment of all deferred interest.

(3) Average tax rate deferral.—Section 1202(b)(8) of the SSA allows a State to defer 80 percent of interest otherwise due if the State has taken no action since October 1, 1982, to reduce the State's tax effort or unemployment fund solvency, and for taxable year 1982, total State unemployment compensation revenues to the unemployment fund equal at least 2 percent of total wages paid by employers covered under the State unemployment compensation law. The State must pay 80 percent of interest otherwise due in four annual installments of at least 20 percent beginning with the year after the year in which it was due. Interest does not accrue on deferred interest. This type of deferral is available for 1983, 1984, and 1985 only.

(4) High unemployment delay of payment due.—Section 1202(b)(9) of the SSA allows a State to delay up to 9 months the payment of interest due September 30 of any calendar year after 1982 during which the average total unemployment rate (TUR) in the State was 13.5 percent or higher for the most recent 12-month period for which data are available.

(5) Discounted interest rate.—Section 1202(b)(8)(D) of the SSA allows a State to receive a discounted interest rate that would be one percentage point below the interest rate that would otherwise apply. The discounted rate for interest due prior to October 1, 1983, would be 9.0 percent. This discounted interest rate is available to a State which has taken on action since October 1, 1982, to reduce the State's tax effort or unemployment fund solvency and has taken action since March 31, 1982, which produces a solvency effort of at least 50, 80, and 90 percent rather than 25, 35, and 50 percent, respectively, as specified under the legislative action deferral. A discounted interest rate is available for 1983, 1984, and 1985 payments only.

For interest payments due in 1984, the following States met the criteria specified by law to qualify for the relief shown.

State	Option
Colorado	Legislative action deferral.
District of Columbia	Legislative action deferral. Discounted rate.
Illinois	Legislative action deferral.
Kentucky	Legislative action deferral.
Michigan	Legislative action deferral. Discounted rate.
Ohio	Legislative action deferral.
Pennsylvania	Legislative action deferral.
West Virginia	Average tax rate deferral. High unemployment delay.
Wisconsin	Legislative action deferral. Discounted rate.

As of December 31, 1984, outstanding unemployment loans totaled $9.5 billion. Table 9 shows the loans made to each State. Interest-bearing loans in 16 States were $3.8 billion.

TABLE 9.—LOANS TO STATES FROM THE FEDERAL UNEMPLOYMENT ACCOUNT (FUA), AS OF DECEMBER 31, 1984

[In millions of dollars, calendar year]

	Date of first loan	Interest free loans	Interest bearing loans	Total title XII loans
Colorado	December 1982		$42	$42
Connecticut	March 1972	$164	33	196
District of Columbia	November 1975	10	33	44
Illinois	December 1975	1,329	378	1,707
Iowa	July 1982		38	38
Kentucky	February 1981		11	11
Louisiana	October 1982		521	521
Michigan	April 1975	1,420	246	1,668
Minnesota	July 1975	118	86	204
Montana	April 1976		9	9
New Jersey	January 1975	320		320
Ohio	March 1977	810	637	1,446
Pennsylvania	October 1975	1,310	661	1,971
Puerto Rico	April 1975	36		36
Texas	November 1982		416	416
Vermont	February 1974	19		19
Virgin Islands	February 1975	1	3	4
West Virginia	September 1980	80	229	308
Wisconsin	February 1982	127	408	535
Total		5,742	3,751	9,492

Source: U.S. Department of Labor, Unemployment Insurance Service, Division of State Program Management, Tax Administration Group.

Note.—Total does not include unpaid interest.

The State unemployment taxes

The States finance their programs with employer payroll taxes imposed on at least the first $7,000 paid annually to each employee.[1] States generally adopt a taxable wage base at least as high as the Federal level because they would otherwise lose the 5.4 percent credit on the difference between the Federal taxable wage base and State taxable wage base. Table 10 shows that as of January 1985, 34 States had taxable wage bases higher than the Federal taxable wage base, ranging up to $21,800 in Alaska and all wages in Puerto Rico.

Although the standard State tax rate is 5.4 percent, State tax rates based on unemployment experience can range from zero on some employers in eight States up to a maximum as high as 10.5

---

[1] Alabama, Alaska, New Jersey, and Pennsylvania also tax employees.

percent in South Dakota. Estimated national average State tax rates on taxable wages and total wages for 1984 were 2.8 and 1.1 percent, respectively. Estimated average State tax rates on taxable wages ranged 1.5 percent in Florida and New Hampshire to 5.5 percent in Michigan. Estimated average State tax rates on total wages varied from 0.6 percent in Arizona and Florida to 3.0 percent in Puerto Rico.

Since the beginning of 1984, 17 States increased their taxable wage bases and 2 States reduced their bases. Thirty-five States had increases in their estimated 1984 average tax rates on taxable wages and 8 States had decreases. Also, 27 States had increases in their estimated 1984 average tax rate on total wages and 11 States had decreases.

TABLE 10.—STATE UNEMPLOYMENT TAX BASES AND RATES

State	1985 tax base	1985 experience rates[1]		Estimated 1984 average tax rates as a percent of—		1984 Federal credit (percent)
		Minimum	Maximum	Taxable wages	All wages	
U.S. average..	(2)	NA	NA	2.8	1.1	NA
Alabama	$8,000	0.5	5.4	2.5	1.3	(4)
Alaska	21,800	1.0	6.5	2.6	1.9	(4)
Arizona	(2)	0.1	5.4	1.9	0.6	(4)
Arkansas	7,500	0	6.0	3.9	2.0	(4)
California	(2)	0.3	5.4	3.3	1.3	(4)
Colorado	8,000	0	5.4	2.7	1.4	(4)
Connecticut	7,100	0.5	6.4	2.7	1.0	2.0
Delaware	8,000	0.1	7.0	3.6	1.4	(4)
District of Columbia	8,000	0.1	5.4	3.0	1.0	1.6
Florida	(2)	0.1	5.4	1.5	0.6	(4)
Georgia	(2)	0.01	5.71	1.7	0.7	(4)
Hawaii	15,100	0	5.4	1.9	1.3	(4)
Idaho	15,000	0.1	6.8	3.4	2.3	(4)
Illinois	8,500	0.2	6.6	4.5	1.8	1.9
Indiana	(2)	0.02	4.5	2.4	1.0	(4)
Iowa	11,200	0	7.0	3.2	1.7	2.4
Kansas	8,000	.025	5.4	2.9	1.4	(4)
Kentucky	8,000	0.30	10.0	3.7	1.7	(4)
Louisiana	(2)	0.3	5.4	3.9	1.5	2.4
Maine	(2)	0.5	6.5	3.7	1.7	(4)
Maryland	(2)	0.1	6.0	2.9	0.9	(4)
Massachusetts	(2)	0.4	6.0	3.0	1.2	(4)
Michigan	9,000	0.3	6.9	5.5	2.2	2.0
Minnesota	10,300	0.1	7.5	2.8	1.3	1.7
Mississippi	(2)	0.1	6.4	2.8	1.3	(4)

TABLE 10.—STATE UNEMPLOYMENT TAX BASES AND RATES—Continued

State	1985 tax base	1985 experience rates[1]		Estimated 1984 average tax rates as a percent of—		1984 Federal credit (percent)
		Minimum	Maximum	Taxable wages	All wages	
Missouri	8,000	0	7.8	2.6	1.0	(4)
Montana	8,600	0.2	4.4	3.1	1.5	(4)
Nebraska	(2)	0.1	5.4	1.9	0.8	(4)
Nevada	11,100	0.3	4.7	2.8	1.5	(4)
New Hampshire	(2)	0.01	6.5	1.5	0.7	(4)
New Jersey	10,100	0.4	6.2	3.1	1.4	2.1
New Mexico	10,000	0.1	5.4	1.9	1.0	(4)
New York	(2)	0.0	6.4	3.2	1.1	(4)
North Carolina	8,700	0.1	5.7	2.1	1.1	(4)
North Dakota	10,700	0.5	5.0	3.6	2.0	(4)
Ohio	8,000	0	4.3	4.8	1.4	2.0
Oklahoma	(2)	0.1	5.2	2.1	0.9	(4)
Oregon	13,000	0.9	5.4	3.1	1.9	(4)
Pennsylvania	8,000	0.3	8.8	5.3	2.3	1.9
Puerto Rico	All wages	(3)	(3)	3.0	3.0	2.1
Rhode Island	10,600	0.8	8.4	4.1	2.3	(4)
South Carolina	(2)	0.25	5.4	2.1	0.9	(4)
South Dakota	(2)	0.1	10.5	1.6	0.8	(4)
Tennessee	(2)	0.15	10.0	3.2	1.3	(4)
Texas	(2)	0.0	6.0	1.6	0.6	2.4
Utah	12,100	2.25	4.50	3.1	1.9	(4)
Vermont	8,000	0.4	8.4	3.3	1.7	2.1
Virginia	(2)	0.1	6.2	2.4	1.0	(4)
Virgin Islands	8,000	(3)	(3)	3.4	2.1	1.8
Washington	10,000	0.5	5.4	3.3	1.8	(4)
West Virginia	8,000	0	7.5	4.2	1.9	2.0
Wisconsin	9,500	0	6.4	4.7	2.5	(4)
Wyoming	9,500	0	8.5	3.9	1.9	(4)

---

[1] Actual rates could be higher if State has an additional tax.

[2] The 1984 tax base is $7,000 except as otherwise shown in this column.

[3] Puerto Rico and the Virgin Islands are not experience rated. The rate in Puerto Rico 2.95% and the Virgin Islands 2.7% of wages paid.

[4] All figures are 2.7 percent except as otherwise shown in this column. To the extent that this credit is lower than 2.7 percent, these additional taxes were due January 31, 1984.

Note.—This table shows the State unemployment tax levels. It does not include the Federal unemployment taxes.

Source: Department of Labor (based on estimates by State agencies).

Table 11 shows recent data on unemployment compensation covered employment, wages, taxable wages, the ratio of taxable to total wages, and average weekly wages. The downward trend in the national average ratio of taxable wages to total wages stopped in 1983 at 0.38. The ratio of taxable wages to total wages in the States varied from 0.29 in New York to 0.70 in Puerto Rico.

TABLE 11.—12-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT INSURANCE (UI) FOR PERIOD ENDING JUNE 1984

State	Average employment (thousands)	Total wages [1] (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly wages covered
United States	89,185	1,584,241	571,019	0.36	322
Alabama	1,263	19,590	8,142	0.42	298
Alaska	198	5,806	2,965	0.51	564
Arizona	1,091	18,416	6,762	0.37	325
Arkansas	727	10,563	4,611	0.44	280
California	10,277	199,105	64,271	0.32	373
Colorado	1,304	23,665	8,740	0.37	350
Connecticut	1,449	28,016	8,929	0.32	372
Delaware	265	4,822	1,596	0.33	351
District of Columbia	376	8,211	2,370	0.29	420
Florida	3,985	63,500	24,738	0.39	307
Georgia	2,224	36,336	13,723	0.38	314
Hawaii	388	6,066	3,355	0.55	301
Idaho	303	4,678	2,669	0.57	297
Illinois	4,382	84,173	29,211	0.35	369
Indiana	1,968	34,459	11,772	0.34	337
Iowa	1,004	15,478	6,747	0.44	296
Kansas	909	14,589	5,313	0.36	309
Kentucky	1,091	17,822	7,053	0.40	314
Louisiana	1,506	26,307	8,923	0.34	336
Maine	410	5,877	2,311	0.39	276
Maryland	1,620	27,498	9,068	0.33	327
Massachusetts	2,662	47,307	17,193	0.36	342
Michigan	3,121	64,081	21,351	0.33	395
Minnesota	1,666	28,888	11,124	0.39	333
Mississippi	762	10,669	4,461	0.42	269
Missouri	1,867	31,908	10,788	0.34	329
Montana	255	3,852	2,282	0.59	290
Nebraska	579	8,514	2,984	0.35	283
Nevada	402	6,929	3,578	0.52	332
New Hampshire	411	6,445	2,490	0.39	301
New Jersey	3,100	59,622	23,165	0.39	370
New Mexico	445	7,040	3,071	0.44	305
New York	7,191	145,357	41,491	0.29	389

TABLE 11.—12-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT INSURANCE (UI) FOR PERIOD ENDING JUNE 1984—Continued

State	Average employment (thousands)	Total wages [1] (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly wages covered
North Carolina	2,405	36,045	15,081	0.42	288
North Dakota	224	3,379	1,476	0.44	290
Ohio	3,957	72,696	24,715	0.34	353
Oklahoma	1,094	18,866	6,573	0.35	332
Oregon	931	15,792	7,852	0.50	326
Pennsylvania	4,333	75,687	26,015	0.34	336
Puerto Rico	678	6,757	4,741	0.70	192
Rhode Island	392	6,108	2,720	0.45	300
South Carolina	1,166	17,254	6,994	0.41	285
South Dakota	217	2,830	1,088	0.39	251
Tennessee	1,675	26,168	10,127	0.39	300
Texas	6,052	111,461	39,389	0.35	354
Utah	518	8,605	4,351	0.51	319
Vermont	200	2,954	1,217	0.41	285
Virginia	2,030	32,879	12,101	0.37	311
Virgin Islands	37	518	191	0.37	267
Washington	1,515	27,244	12,625	0.46	346
West Virginia	546	9,347	3,409	0.37	329
Wisconsin	1,828	30,686	11,683	0.38	323
Wyoming	189	3,379	1,425	0.42	344

[1] Total wages exceed taxable wages because wages from reimbursable employers are included in the former and because wage base is limited.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service.

ADMINISTRATION'S FISCAL YEAR 1985 FINANCIAL PROJECTIONS

Federal loans to State unemployment compensation programs

In its fiscal year 1985 budget, the administration projected total outstanding Federal loans to State UC programs at $6.6 and $4.6 billion at the ends of fiscal years 1985 and 1986, respectively. It also projected new loans in these years at $1.0 and $0.6 billion, respectively. Table 12 provides a breakdown of the projected new Federal loans and the loan balances in the States obtaining new loans for fiscal years 1985 and 1986. Illinois, Louisiana, Pennsylvania, and Texas account for 71 percent of the projected new loans in fiscal year 1985.

TABLE 12.—PROJECTED NEW FEDERAL LOANS TO STATE UNEMPLOYMENT COMPENSATION PROGRAMS IN FISCAL YEARS 1985 AND 1986

[In millions of dollars]

State	Projected loans fiscal years		Projected loan balance at end of fiscal years	
	1985	1986	1985	1986
Colorado	2	30	5	0
Connecticut	0	0	98	0
District of Columbia	0	4	0	0
Illinois	110	0	1,120	826
Iowa	30	0	0	0
Kentucky	40	0	0	0
Louisiana	140	140	585	661
Michigan	50	0	1,291	1,138
Minnesota	60	40	84	0
Montana	7	2	0	0
New Jersey	0	0	208	45
North Dakota	10	0	0	0
Ohio	40	0	771	480
Pennsylvania	250	200	1,619	1,134
Texas	190	160	354	0
Utah	6	0	0	0
Vermont	0	0	12	5
Virgin Islands	2	2	3	2
Washington	40	15	0	0
West Virginia	0	40	260	259
Wisconsin	0	6	188	73
Wyoming	16	17	0	0
Total[1]	971	639	6,595	4,621

[1] Rounded to nearest $100 million.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services. Based on administration's fiscal year 1984 budget.

Interest charges

Table 13 classifies the projected interest charges on Federal loans to insolvent State UC programs at the end of fiscal years 1985 and 1986. The total projected charges are $0.41 and $0.19 billion in fiscal years 1985 and 1986, respectively.

Projected Federal unemployment tax credit reductions

Projected Federal unemployment tax credit reductions, or in other words increased Federal Unemployment Taxes in delinquent debtor States, totaled $914 and $1,355 million in fiscal years 1984 and 1985, respectively. Table 14 shows the State distributions of the projected additional Federal unemployment tax revenue and the credit rate reductions for fiscal years 1984 and 1985. The credit rate reductions range from 0.3 percentage points in many States for both years to 1.1 percentage points in one State for calendar year 1984.

TABLE 13.—PROJECTED INTEREST CHARGES ON FEDERAL LOANS TO INSOLVENT STATE UNEMPLOYMENT COMPENSATION PROGRAMS IN FISCAL YEARS 1984 AND 1985

Interest charges (in millions of dollars)	States	
	Fiscal year 1985	Fiscal year 1986
1-10	Colorado	
	Connecticut	
	District of Columbia	District of Columbia
	Iowa	
	Kentucky	Kentucky
		Minnesota
	Montana	
	West Virginia	
11-50		Illinois
	Michigan	Michigan
	Minnesota	
	Ohio	Ohio
	Pennsylvania	
	Texas	Texas
		West Virginia
	Wisconsin	Wisconsin
51-100	Illinois	
	Louisiana	Louisiana
		Pennsylvania

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services. Based on administration's fiscal year 1984 budget.

Table 14 shows that employers in Connecticut, Illinois, Michigan, New Jersey, Ohio, and Pennsylvania are projected to pay 74 percent of the additional Federal unemployment taxes resulting from the projected credit reductions in fiscal year 1984.

TABLE 14.—PROJECTED FEDERAL UNEMPLOYMENT TAX CREDIT REDUCTIONS IN 1984 AND 1985

State	Credit rate reduction (percentage points) (calendar years)		Additional Federal unemployment taxes (dollars in millions) (fiscal years)	
	1985	1986	1985	1986
Colorado	0	0.6	0	40
Connecticut	.7	1.1	66	113
District of Columbia	1.1	0	24	0
Illinois	.8	1.1	210	294
Iowa	.3	0	16	0
Louisiana	.3	.6	26	51
Michigan	.7	.8	130	154

TABLE 14.—PROJECTED FEDERAL UNEMPLOYMENT TAX CREDIT REDUCTIONS IN 1984 AND 1985—Continued

State	Credit rate reduction (percentage points) (Calendar years)		Additional Federal unemployment taxes (dollars in millions) (fiscal years)	
	1985	1986	1985	1986
Minnesota	.8	1.0	76	99
New Jersey	.6	.8	114	163
Ohio	.7	.7	163	168
Pennsylvania	.8	1.1	196	270
Puerto Rico	.6	0	17	0
Texas	.3	1.7	115	714
Vermont	.6	.6	7	7
Virgin Islands	.9	.9	2	2
West Virginia	.7	.8	21	23
Wisconsin	0	.6	0	53
Total			1,183	2,151

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services. Based on administration's fiscal year 1984 budget.

ADMINISTRATIVE FINANCING AND ALLOCATION

State unemployment insurance administrative expenses are Federally financed. A portion of revenue from the Federal unemployment tax (FUTA) is designated for administration and to maintain a system of public employment offices.

FUTA revenue flows into three Federal accounts in the Unemployment Trust Fund: (1) the Employment Security Administration Account (ESSA), (2) the Extended Unemployment Compensation Account (EUCA), and (3) the Federal Unemployment Account (FUA). Authorized by title IX of the Social Security Act, ESSA finances administrative costs associated with Federal and State unemployment compensation and employment services.

Under current law, sixty percent of FUTA revenue is allocated to ESAA. Funds authorized for administration are limited to 95 percent of the estimated annual revenue that is expected to flow to ESAA from the Federal unemployment tax. The amount is estimated after transfer of FUTA receipts earmarked for the extended unemployment compensation account. Funds for administration may be augmented by three-eighths of the amount in ESAA at the beginning of the fiscal year, or $150 million, whichever is less, if the rate of insured unemployment is at least 15 percent higher than it was over a corresponding calendar quarter in the immediately preceding year.

Title III of the Social Security Act authorizes payment to each State, with an approved unemployment insurance law, such amounts as are deemed necessary for the proper and efficient administration of such law during the fiscal year. Allocations are based on (1) the population of the State, (2) an estimate of the number of persons covered by the State unemployment insurance law, (3) an estimate of the cost of proper and efficient administration of such law; and (4) such other factors as the Secretary of Labor finds relevant.

Subject to the limit of available resources, the allocation of State grants for administration is the summation of resources derived in three major areas, the Unemployment Insurance Service (UI), the Employment Service (ES), and Administrative Staff and Technical Services (AS&T)/Nonpersonal Services (NPS). Each area has its own allocation methodology subject to general constraints set forth in the Social Security Act.

Each year, as part of the development of the President's Budget, the Department of Labor in conjunction with the Department of Treasury, estimates revenue expected from FUTA and the appropriate amount which will be available for administration (and the Federal share of extended benefits). The estimate of FUTA revenues is based on several factors: (1) a wage base of $7,000 per employee, (2) a tax rate of 0.8 percent (0.48 percentage points for administration and 0.32 percentage points for extended benefits), (3) the administration's projection of the level of unemployment and the growth in wages, and (4) the level of covered employment subject to FUTA. Additionally, a determination is made based on the administration's forecast for unemployment as to whether the rate will increase by at least 15 percent.

Each year the President's Budget sets forth an estimate of national unemployment in terms of the volume of unemployment claims per week. This is characterized as average weekly insured unemployment (AWIU). A portion of AWIU is expressed as "base" and the remainder as "contingency." At the present time, the base is set at the level of resources required to process an average weekly volume of 2.1 million weeks of unemployment.

Resources available to each State to administer its unemployment compensation program (i.e., process claims and pay benefits) are provided from either "base" funds or "contingency" funds. At the beginning of the fiscal year, only the base funds are allocated while contingency funds are allocated on a needs basis as workload materializes. Base funds are distributed to the State for use throughout the fiscal year and are available regardless of the level of unemployment (workload) realized. If a State processes workloads in excess of the base level they receive the contingency funds determined by the extent of the resources required to process the additional workload.

The allocation of the base UI grant funds to each State is determined by:

(1) Estimating, based on the known relative share of each State to the U.S. total, what portion of the estimated workload for a given fiscal year a State may be expected to process;

(2) Determining the resources required to process the anticipated workload. These resources are derived from work measurement studies conducted in each State which establish the number of minutes required to accomplish specific tasks. The

results are quantified as minutes per unit (MPU) per program function; and

(3) Obtaining the number of work hours per staff year in each State.

The anticipated UI administrative grant amounts for each State are then forecast and summed. Resources are expressed in terms of staff years. The number of staff years required in each State is the product of the estimated workload and the required processing time (i.e., MPU's) divided by the hours worked. If the number of staff years derived from this calculation exceeds the number available for allocation, the allocation is adjusted by reducing workloads and/or MPU's. The final staff year allocations for each State are then multiplied by the cost per staff year (i.e., State salary level) for a given State to determine dollar funding levels. Each Department of Labor regional office may redistribute the resources available to the States in their area.

The resources available for AS&T/NPS are also determined during the development of the President's budget. The AS&T function provides funding for the administrative staff and technical services which are part of the State's agency-wide overhead and are considered to benefit all UI and ES grant programs. Nonpersonal services include: supplies, travel, communications, premises and equipment.

The AS&T/NPS allocation process is accomplished in four areas. The first area, administration and management, provides each State with a set minimum number of positions, with additional positions above the minimum determined by the number of employment service and unemployment insurance positions allocated. Second, funding for nonpersonal services is provided by setting a minimum amount for each State and allocating additional funds based on UI and ES positions and the population density in each State. Third, for office space, the prior year actual cost per grant staff year is determined, then inflated by the national percentage increase for NPS, and finally multiplied by the projected ES and UI positions. Fourth, funding for automatic data processing (ADP) is provided based on prior year actual cost, then inflated by the national percentage increase for NPS. Adjustments are made each fiscal year to reflect changes in the mode of operation of each State agency. There is also a component in the process which provides funding for ADP staff.

In any given year a hold harmless factor which assures that no State agency receives less than 95 percent of a prior year's level may be used. A last calculation is made to make pro rata adjustments to dollars actually available.

RECENT MAJOR LEGISLATION

Major Federal laws passed by recent sessions of Congress and some of their provisions are:

(1) The Employment Security Amendments of 1970 (Public Law 91-373) expanded FUTA coverage primarily to small businesses, nonprofit organizations, and higher educational institutions. It also raised the taxable wage base from the original $3,000 to $4,200 in 1972; increased the minimum, net Federal unemployent tax rate

from 0.4 to 0.5 percent in 1970; and created the Federal-State extended benefits program.

(2) The Unemployment Compensation Amendments of 1976 (Public Law 94-566), extended FUTA coverage primarily to State-local government workers and certain agricultural and domestic labor. It also raised the taxable wage base to $6,000 in 1978 and temporarily increased the minimum, net Federal unemployment tax rate from 0.5 to 0.7 percent in 1977.

(3) The Omnibus Budget Reconciliation Act of 1980 (Public Law 96-499) added among other provisions a denial of extended benefits to claimants under certain circumstances who have rejected a minimum wage job.

(4) The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) imposed interest charges up to 10 percent per annum under certain conditions on loans obtained by State UC programs after April 1, 1982. It also cut an estimated $3 to $4 billion from the Extended Benefits program in fiscal year 1983.

(5) The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) increased the taxable wage base from $6,000 to $7,000 and raised the minimum, net Federal unemployment tax rate to 0.8 percent in 1983. It also raised the gross tax and credit rates in 1985 to 6.2 and 5.4 percent, respectively. This leaves the minimum, net Federal rate unaffected, but raises the maximum, potential, net tax rate in States with delinquent loans from 3.4 to 6.2 percent. The Act also created the temporary Federal supplemental compensation program, which authorized 6 to 10 additional weeks of benefits through March 31, 1983.

(6) The Surface Transportation Assistance Act (Public Law 97-424), passed in the lame-duck session of Congress, added 2 to 6 weeks to the Federal Supplemental Compensation program for a combined maximum in that program of 8 to 16 weeks.

(7) The Social Security Amendments of 1983 (Public Law 98-21) extended the Federal supplemental compensation program through September 30, 1983, providing a maximum of 8 to 14 weeks of benefits. It also established conditions under which States could defer the payment of interest on loans from the Federal Unemployment Account and qualify for reduced FUTA credit reductions.

(8) The Federal Supplemental Compensation Amendments of 1983 (Public Law 98-135) extended the Federal Supplemental Compensation program through March 31, 1985, providing a maximum of 8 to 14 weeks of benefits.

1985 reports required by law

The Tax Equity and Fiscal Responsibility Act of 1982 directed the Department of Labor to Evaluate any "short-time compensation" programs implemented by the States and to report the findings no later than October 1, 1985.

TABLE 15.—LEGISLATIVE CHANGES IN THE UNEMPLOYMENT COMPENSATION PROGRAM IN CALENDAR YEARS 1981, 1982, AND 1983

[In millions of dollars]

	Fiscal years					
	1982	1983	1984	1985	1986	1987
1981 (January 1982 estimates):						
Elimination of national trigger under the extended benefits program	−827	−1,273	−1,418			
Raise State triggers to 5 percent plus 120 percent or 6 percent	−0	−1,152	−448			
Claims for extended or additional compensation not included in determining rate of insured unemployment for extended benefit trigger calculation	−1,286	−1,283	−1,225			
Require 20 weeks of work or equivalent wages for extended benefits	0	−4	−3			
Limitations on unemployment benefits paid to ex-service members	−325	−376	−347			
Federal unemployment compensation loans to States	−5	−157	−350			
1982 (January 1983 estimates):						
Rounding UC benefits		−0	−22	−21	−20	−19
Extend Reed Act		0	0	0	0	0
Deferral of interest payment on UC loans		50	400	150	−250	−250
Treatment of school employees		−7	−8	−9	−10	−11
Short time compensation		1	1	0	0	0
Unemployment benefits paid to ex-service members		132	111	117	109	101
Taxation of unemployment compensation benefits		−763	−734	−611	−618	−650
Federal supplemental benefits		2,570				
1983 (January 1984 estimates):						
Federal supplemental benefits			3,500	1,200		
Deferral of interest		37	85	−137	−474	−465

Source: Congressional Budget Office.

APPENDIX F. STATISTICAL DATA ON UNEMPLOYMENT AND HISTORICAL INFORMATION ON THE UNEMPLOYMENT COMPENSATION PROGRAM

The following tables and charts provide statistical data on unemployment and historical information on the unemployment compensation program.

TABLE 1.—MONTHLY DATA FOR FOUR ECONOMIC INDICATORS SINCE 1970

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
Civilian Unemployment Rate—Total (Seasonally Adjusted)													
1970	3.9	4.2	4.4	4.6	4.8	4.9	5.0	5.1	5.4	5.5	5.9	6.1	4.9
1971	5.9	5.9	6.0	5.9	5.9	5.9	6.0	6.1	6.0	5.8	6.0	6.0	5.9
1972	5.8	5.7	5.8	5.7	5.7	5.7	5.6	5.6	5.5	5.6	5.3	5.2	5.6
1973	4.9	5.0	4.9	5.0	4.9	4.9	4.8	4.8	4.8	4.6	4.8	4.9	4.9
1974	5.1	5.2	5.1	5.1	5.1	5.4	5.5	5.5	5.9	6.0	6.6	7.2	5.6
1975	8.1	8.1	8.6	8.8	9.0	8.8	8.6	8.4	8.4	8.4	8.3	8.2	8.5
1976	7.9	7.7	7.6	7.7	7.4	7.6	7.8	7.8	7.6	7.7	7.8	7.8	7.7
1977	7.5	7.6	7.4	7.2	7.0	7.2	6.9	6.9	7.0	6.8	6.8	6.4	7.1
1978	6.4	6.3	6.3	6.1	6.0	5.9	6.2	5.9	6.0	5.8	5.9	6.0	6.1
1979	5.9	5.9	5.8	5.8	5.6	5.7	5.7	6.0	5.9	6.0	5.9	6.0	5.8
1980	6.3	6.3	6.3	6.9	7.5	7.6	7.8	7.7	7.5	7.5	7.5	7.2	7.1
1981	7.5	7.4	7.4	7.2	7.5	7.5	7.2	7.4	7.6	7.9	8.3	8.5	7.6
1982	8.6	8.9	9.0	9.3	9.4	9.6	9.8	9.8	10.1	10.4	10.7	10.7	9.7
1983	10.4	10.4	10.3	10.2	10.2	10.1	9.4	9.4	9.2	8.8	8.4	8.2	9.6
1984	8.0	7.8	7.8	7.8	7.5	7.2	7.5	7.5	7.4	7.3	7.1	7.2	7.5
1985	7.4												

TABLE 1.—MONTHLY DATA FOR FOUR ECONOMIC INDICATORS SINCE 1970—Continued

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
Insured Unemployment Rate Under State Programs (Seasonally Adjusted)													
1970	2.5	2.7	2.8	3.2	3.5	3.6	3.6	3.7	4.0	4.4	4.4	4.0	3.4
1971	3.9	3.9	4.0	4.1	4.1	4.1	3.9	4.2	4.3	4.2	4.1	4.0	4.1
1972	3.7	3.7	3.6	3.6	3.6	3.5	3.7	3.4	3.4	3.2	3.2	3.2	3.5
1973	2.9	2.8	2.8	2.6	2.7	2.7	2.6	2.8	2.7	2.7	2.7	2.9	2.7
1974	3.1	3.2	3.3	3.2	3.2	3.3	3.3	3.4	3.5	3.7	4.4	5.0	3.5
1975	5.6	5.8	6.4	6.7	6.9	6.8	6.1	5.9	5.8	5.6	5.3	4.9	6.0
1976	4.6	4.3	4.3	4.4	4.5	4.5	4.6	4.6	4.7	4.7	4.7	4.4	4.6
1977	4.3	4.2	4.1	4.0	3.9	3.9	3.8	3.8	3.8	3.8	3.8	3.7	3.9
1978	3.5	3.7	3.6	3.3	3.2	3.2	3.3	3.4	3.2	3.1	2.9	3.2	3.3
1979	3.1	3.2	3.1	3.0	2.8	2.8	2.8	3.0	2.9	3.0	3.1	3.2	2.9
1980	3.3	3.3	3.4	3.7	4.2	4.4	4.4	4.3	4.2	4.0	3.8	3.6	3.9
1981	3.5	3.5	3.4	3.3	3.3	3.3	3.3	3.3	3.4	3.6	3.9	4.0	3.5
1982	4.2	4.0	4.3	4.6	4.5	4.7	4.7	4.7	5.0	5.2	5.3	4.8	4.6
1983	4.5	4.7	4.5	4.4	4.2	3.9	3.7	3.5	3.4	3.3	3.3	3.2	3.9
1984	2.9	2.8	2.9	2.8	2.8	2.7	2.7	2.7	2.7	2.8	2.7	3.0	NA

TABLE 2.—STATE INSURED UNEMPLOYMENT RATES FOR CALENDAR YEARS 1980–83 AND RATES BY CALENDAR QUARTER FOR 1984 UNDER THE UNEMPLOYMENT COMPENSATION PROGRAM

[Percent]

	1980	1981	1982	1983	1984			
					I	II	III	IV
Alabama	4.4	4.0	4.6	4.6	4.1	3.0	3.3	3.6
Alaska	7.7	7.0	6.7	6.7	8.4	6.2	4.5	5.9
Arizona	2.5	2.4	3.1	3.2	2.2	1.9	1.9	1.5
Arkansas	4.8	4.2	4.6	4.6	4.5	3.1	2.9	3.8
California	3.9	3.8	4.7	4.7	4.0	3.3	3.1	3.3
Colorado	2.0	2.1	3.1	3.1	3.0	2.1	1.6	1.8
Connecticut	2.7	2.6	2.9	2.9	2.5	1.7	1.6	1.5
Delaware	3.4	3.5	2.6	2.6	2.6	2.0	2.0	1.4
District of Columbia	2.7	2.6	3.2	3.2	2.8	2.4	2.6	2.1
Florida	2.0	1.8	2.1	2.1	1.4	1.3	1.7	1.3
Georgia	2.5	2.5	2.5	2.5	2.0	1.6	1.7	1.8
Hawaii	2.8	3.1	3.4	3.4	2.9	2.7	2.9	3.3
Idaho	5.0	5.0	5.6	5.6	6.0	3.7	3.5	3.6
Illinois	4.4	4.3	4.8	4.8	4.1	3.0	2.6	2.8
Indiana	4.2	3.2	3.7	3.7	3.3	2.3	2.1	2.4
Iowa	3.2	2.9	3.7	3.7	3.7	2.4	2.0	2.6
Kansas	2.6	2.4	3.1	3.1	2.7	2.0	1.9	2.1
Kentucky	5.4	4.5	4.9	4.9	4.5	3.1	2.6	3.0
Louisiana	2.9	2.7	5.2	5.2	4.5	3.8	3.5	3.7
Maine	4.4	4.2	4.6	4.5	5.1	3.4	3.0	3.2
Maryland	3.1	3.2	3.5	3.5	3.3	2.2	1.9	2.0
Massachusetts	3.3	3.4	3.2	3.2	3.1	2.2	2.1	2.0
Michigan	8.1	5.9	4.7	4.7	4.3	3.1	2.9	3.2
Minnesota	3.1	2.8	3.2	3.1	3.6	2.1	1.6	2.1
Mississippi	4.0	3.9	5.0	5.0	4.2	3.4	3.6	3.5
Missouri	4.3	3.7	3.6	3.5	3.5	2.2	2.1	2.2
Montana	4.4	4.1	4.8	4.8	5.6	3.9	3.2	3.7
Nebraska	1.9	1.9	2.7	2.7	3.2	1.8	1.4	1.7
Nevada	3.1	3.5	4.0	4.0	3.7	2.7	2.6	2.8
New Hampshire	2.2	2.2	2.2	2.2	1.7	1.7	1.4	1.0
New Jersey	4.7	4.3	3.9	3.9	4.0	3.0	2.8	2.8
New Mexico	2.8	2.7	4.0	4.0	3.5	2.9	2.7	2.7
New York	3.7	3.4	3.5	3.5	3.7	2.9	2.6	2.6
North Carolina	2.9	3.0	3.1	3.1	2.7	1.9	1.9	2.3
North Dakota	2.9	2.7	3.5	3.5	4.8	3.0	1.9	2.4
Ohio	4.9	4.1	4.2	4.2	3.9	2.8	2.5	2.9
Oklahoma	1.7	1.4	3.0	3.0	2.2	1.9	1.9	2.1

TABLE 2.—STATE INSURED UNEMPLOYMENT RATES FOR CALENDAR YEARS 1980–83 AND RATES BY CALENDAR QUARTER FOR 1984 UNDER THE UNEMPLOYMENT COMPENSATION PROGRAM—Continued

[Percent]

	1980	1981	1982	1983	1984			
					I	II	III	IV
Oregon	5.4	5.7	5.5	5.5	5.5	4.3	3.5	4.1
Pennsylvania	5.2	4.4	5.9	5.9	5.3	4.0	3.6	3.9
Puerto Rico	7.5	8.2	7.2	7.2	6.4	5.5	6.7	6.6
Rhode Island	5.4	5.0	4.7	4.7	4.8	3.3	3.0	3.0
South Carolina	3.4	3.7	3.6	3.6	2.8	2.2	2.4	2.8
South Dakota	2.0	2.3	1.8	1.7	1.8	1.0	.8	1.1
Tennessee	4.2	3.8	3.6	3.6	3.1	2.1	2.2	2.6
Texas	1.5	1.1	2.4	2.4	1.9	1.4	1.4	1.5
Utah	3.1	3.1	4.0	4.0	3.7	2.4	2.1	2.5
Vermont	4.3	3.9	4.3	4.3	4.6	3.5	2.2	2.7
Virgin Islands	2.0	1.9	1.8	1.8	1.7	1.1	0.9	1.1
Virginia	3.2	3.6	4.6	4.6	3.4	3.9	4.6	3.8
Washington	4.6	4.9	5.7	5.6	5.5	4.2	3.7	4.3
West Virginia	5.6	5.7	7.5	7.6	6.2	4.3	3.6	5.4
Wisconsin	5.2	4.7	4.8	4.7	4.9	3.1	2.5	3.1
Wyoming	1.4	1.8	4.4	4.4	3.7	2.4	1.4	1.7
U.S. average	3.9	3.5	4.7	3.9	3.6	2.6	2.5	2.7

TABLE 3.—SELECTED UNEMPLOYMENT RATES

[Monthly data seasonally adjusted]

Period	Unemployment rate (percent of civilian labor force in group)										
		By sex and age			By race		By selected groups				
	Total (all civilian workers)	Men 20 years and over	Women 20 years and over	Both sexes 16–19 years	White	Black and other	Experienced wage and salary workers	Married men, spouse present	Women who maintain families	Full-time workers	Part-time workers
1976	7.7	5.9	7.4	19.0	7.0	13.1	7.3	4.2	10.1	7.3	10.1
1977	7.1	5.2	7.0	17.8	6.2	13.1	6.6	3.6	9.4	6.6	9.9
1978	6.1	4.3	6.0	16.4	5.2	11.9	5.6	2.8	8.5	5.6	9.0
1979	5.8	4.2	5.7	16.1	5.1	11.3	5.5	2.8	8.3	5.3	8.8
1980	7.1	5.9	6.4	17.8	6.3	13.1	6.9	4.2	9.2	6.9	8.8
1981	7.6	6.3	6.8	19.6	6.7	14.2	7.3	4.3	10.4	7.3	9.4
1982	9.7	8.8	8.3	23.2	8.6	17.3	9.3	6.5	11.7	9.6	10.5
1983	9.6	8.9	8.1	22.4	8.4	17.8	9.2	6.5	12.2	9.5	10.4
1984	7.5	6.6	6.8	18.9	6.5	14.4	7.1	4.6	10.3	NA	NA

NA· Not Available.

Source: Department of Labor, Bureau of Labor Statistics.

TABLE 4.—SELECTED MEASURES OF UNEMPLOYMENT

[Monthly data seasonally adjusted, except as noted]

Period	Umemployment (thousands)	Percent distribution of unemployment by duration [1]				Percent distribution of unemployment by reason [1]			
		Less than 5 weeks	5–14 weeks	15–26 weeks	27 weeks and over	Job losers	Job leavers	Reentrants	New entrants
1977	6,991	41.8	30.5	13.1	14.7	45.3	13.0	28.1	13.6
1978	6,202	46.2	31.0	12.4	10.4	41.7	14.1	29.9	14.3
1979	6,137	48.1	31.7	11.5	8.7	42.9	14.3	29.4	13.3
1980	7,637	43.1	32.3	13.8	10.7	51.7	11.7	25.2	11.4
1981	8,273	41.7	30.7	13.6	14.0	51.6	11.2	25.4	11.9
1982	10,678	36.4	31.0	16.0	16.6	58.7	7.9	22.3	11.1
1983	10,717	33.3	27.4	15.4	23.9	58.4	7.7	22.5	11.3
1984	8,539	39.2	28.7	12.9	19.1	51.8	9.6	25.6	13.0

---

[1] Detail may not add to 100 percent because of rounding.

TABLE 5.—BENEFIT EXHAUSTIONS, REGULAR PROGRAM

[In thousands]

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
January	152	147	229	333	261	211	184	215	309	258	421	269
February	127	129	230	295	251	184	160	201	375	267	394	245
March	143	146	270	326	290	201	193	220	291	341	470	251
April	138	167	369	305	265	192	185	259	289	361	431	245
May	141	178	406	274	242	193	195	251	246	338	398	245
June	119	159	438	282	254	176	162	246	244	378	383	201
July	119	190	487	264	215	151	169	298	247	360	336	214
August	124	174	413	254	234	158	166	256	215	365	341	208
September	100	145	370	239	198	138	140	254	207	351	264	179
October	111	155	350	212	183	133	161	292	200	347	244	....
November	110	152	291	231	192	144	159	259	201	384	249	....
December	111	186	336	251	192	149	163	319	265	424	248	....
Year total	1,495	1,928	4,189	3,266	2,777	2,030	2,037	3,070	3,089	4,174	4,179	....

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 6.—BENEFIT EXHAUSTIONS, EXTENDED BENEFIT PROGRAM

[In thousands]

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
January	NA	10	52	366	177	126	11	24	169	9	91	7
February	NA	9	50	215	166	67	10	15	128	14	95	6
March	NA	10	100	244	187	50	13	18	134	38	128	7
April	NA	13	162	253	177	46	15	30	117	114	153	6
May	NA	62	207	190	159	49	31	74	15	134	156	12
June	NA	65	228	197	170	49	19	66	90	193	120	3
July	NA	55	245	175	141	50	13	67	48	128	44	1
August	NA	41	245	178	92	38	12	64	21	121	23	
September	NA	38	271	180	94	23	11	139	23	126	11	
October	NA	47	294	174	137	31	14	183	15	126	7	
November	NA	46	258	187	136	12	12	147	14	93	6	
December	NA	47	286	178	137	10	11	189	11	94	6	
Year total		443	2,398	2,537	1,773	551	172	1,016	785	1,190	840	

NA: Not available.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 7.—BENEFIT EXHAUSTIONS UNDER FEDERAL SUPPLEMENTAL BENEFITS (1974–77) AND FEDERAL SUPPLEMENTAL COMPENSATION

[In thousands]

	1973	Federal supplemental benefits				1978–81 [1]	Federal supplemental compensation		
		1974	1975	1976	1977		1982	1983	1984
January			49	108	185			226	225
February			63	130	105			419	168
March			112	136	73			315	145
April			97	169	33			68	111
May		1	96	181	33			113	114
June		6	80	164	7			730	95
July		49	91	169				352	96
August		35	93	174				291	94
September		48	92	145				300	66
October		119	81	157			18	215	
November		58	103	116			354	130	
December		58	103	116			318	424	
Total		374	1,060	1,765	436		680	3,583	

[1] There was no program in these years.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 8.—UNEMPLOYMENT COMPENSATION BENEFITS PAID BY PROGRAM IN FISCAL YEAR 1984

[In millions of dollars]

State	Programs			Total
	Regular	Extended	Supplemental	
Alabama	88	7	11	106
Alaska	167	0	40	207
Arizona	89	0	15	104
Arkansas	81	0	14	95
California	1,805	0	289	2,094
Colorado	169	0	18	187
Connecticut	168	0	21	189
Delaware	64	0	11	75
District of Columbia	31	0	3	34
Florida	227	0	46	273
Georgia	176	0	21	197
Hawaii	63	0	7	70
Idaho	154	0	34	188
Illinois	59	5	12	76

TABLE 8.—UNEMPLOYMENT COMPENSATION BENEFITS PAID BY PROGRAM IN FISCAL YEAR 1984—Continued

[In millions of dollars]

State	Programs			Total
	Regular	Extended	Supplemental	
Indiana	880	0	286	1,166
Iowa	188	0	55	243
Kansas	116	0	14	130
Kentucky	167	0	51	218
Louisiana	434	6	141	581
Maine	354	0	36	390
Maryland	204	0	24	228
Massachusetts	61	0	12	73
Michigan	664	0	152	816
Minnesota	255	0	39	294
Mississippi	166	0	21	187
Missouri	96	0	26	122
Montana	58	0	13	71
Nebraska	195	0	42	237
Nevada	46	0	7	53
New Hampshire	51	0	3	54
New Jersey	31	0	1	32
New Mexico	654	0	66	720
New York	62	0	8	70
North Carolina	69	0	13	82
North Dakota	1,174	0	187	1,361
Ohio	685	0	219	904
Oklahoma	132	0	31	163
Oregon	214	0	44	258
Pennsylvania	1,115	0	309	1,424
Puerto Rico	85	21	35	141
Rhode Island	69	0	14	83
South Carolina	104	0	19	123
South Dakota	9	0	1	10
Tennessee	147	0	37	184
Texas	617	0	130	747
Utah	66	0	13	79
Vermont	116	0	16	132
Virginia	7	0	1	8
Virgin Islands	32	0	4	36
Washington	410	0	110	520

TABLE 8.—UNEMPLOYMENT COMPENSATION BENEFITS PAID BY PROGRAM IN FISCAL YEAR 1984—Continued

[In millions of dollars]

State	Programs			Total
	Regular	Extended	Supplemental	
West Virginia	373	0	70	443
Wisconsin	151	23	58	232
Wyoming	31	0	7	38

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance, Division of Acutuarial Service.

TABLE 9.—U.S. AVERAGE BENEFIT COST RATE: REGULAR STATE UI PLUS ½ EXTENDED BENEFIT AS PERCENT OF COVERED WAGES

Year	First quarter	Second quarter	Third quarter	Fourth quarter	Average
1971	1.52	1.19	1.05	1.06	1.20
1972	1.23	.92	.78	.72	.91
1973	.96	.72	.62	.66	.74
1974	1.13	.98	.89	1.13	1.03
1975	2.31	2.31	1.90	1.68	2.05
1976	1.85	1.42	1.28	1.30	1.46
1977	1.62	1.17	1.00	1.02	1.20
1978	1.19	.82	.73	.70	.86
1979	1.03	.77	.73	.81	.84
1980	1.23	1.23	1.32	1.21	1.25
1981	1.31	1.02	.93	1.09	1.09
1982	1.61	1.56	1.55	1.66	1.59
1983	1.87	1.42	1.02	.88	1.30
1984	1.09	.83	.72	....	1.32

Note: 1971–74 EB data not available.

TABLE 10.—U.S. AVERAGE WAGE REPLACEMENT RATE: RATIO OF AVERAGE WEEKLY BENEFIT AMOUNT TO AVERAGE WEEKLY WAGE

Year	First quarter	Second quarter	Third quarter	Fourth quarter	Average
1971	0.347	0.346	0.344	0.356	0.348
1972	.356	.356	.355	.361	.357
1973	.354	.350	.343	.354	.350
1974	.349	.349	.358	.365	.355
1975	.352	.358	.366	.377	.363
1976	.363	.362	.356	.366	.362
1977	.358	.351	.347	.362	.354
1978	.360	.351	.345	.357	.353
1979	.350	.345	.345	.362	.351
1980	.350	.358	.359	.363	.357
1981	343	.346	.348	.363	.350
1982	.356	.362	.366	.377	.365
1983	.365	.364	.356	.357	.360
1984	.354	.351	.342	....	.349

Prepared by DOL/ETA/UIS/DAS.

TABLE 11.—NUMBER UNEMPLOYED 27 WEEKS OR LONGER AS A PERCENT OF ALL UNEMPLOYED

	First quarter	Second quarter	Third quarter	Fourth quarter
1971	8.7	11.1	11.0	10.8
1972	12.1	13.5	10.8	9.8
1973	8.6	8.5	7.0	7.4
1974	6.8	8.3	7.5	7.1
1975	8.7	14.8	18.7	19.1
1976	19.7	20.1	16.7	16.3
1977	15.5	16.5	13.6	12.9
1978	11.1	11.8	10.1	8.7
1979	9.0	9.5	8.1	8.3
1980	8.3	9.9	11.1	13.5
1981	15.3	15.0	13.7	12.3
1982	13.0	16.7	17.1	19.4
1983	23.2	26.3	23.8	21.9
1984	21.0	21.0	17.7	16.5

Source: U.S. Department of Labor.

TABLE 12.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS

[In percent]

State and area	October		November	
	1983	1984	1983	1984p
Alabama	11.7	10.7	11.5	11.0
Birmingham	11.3	9.6	11.1	9.5
Huntsville	8.7	8.0	8.9	7.9
Mobile	13.8	11.8	12.9	11.7
Montgomery	10.2	8.5	10.2	9.0
Tuscaloosa	10.9	9.5	10.5	9.5
Alaska	8.9	9.6	10.1	10.5
Arizona	7.6	4.2	7.2	4.1
Phoenix	6.0	3.2	5.7	3.1
Tucson	7.4	4.8	7.1	3.8
Arkansas	8.3	8.4	8.3	8.6
Fayetteville-Springdale	5.8	4.9	5.6	5.2
Fort Smith[1]	8.7	8.6	8.4	8.8
Little Rock-North Little Rock	7.1	6.4	6.8	6.0
Pine Bluff	8.8	8.8	8.2	8.4
California[2]	8.1	7.0	8.2	7.1
Anaheim-Santa Ana-Garden Grove	5.3	3.8	5.2	3.8
Bakersfield	12.1	11.4	13.5	11.6
Fresno	11.9	11.1	14.0	12.9
Los Angeles-Long Beach[2]	8.7	7.7	7.8	7.1
Modesto	13.9	12.7	16.4	14.8
Oxnard-Simi Valley-Ventura	9.0	8.0	9.4	8.1
Riverside-San Bernardino-Ontario	9.2	7.7	9.4	7.6
Sacramento	8.0	7.0	9.0	7.6
Salinas-Seaside-Monterey	9.2	7.8	11.7	10.6
San Diego	6.8	5.4	6.9	5.4
San Francisco-Oakland	6.5	5.4	6.6	5.4
San Jose	5.7	4.4	5.9	4.3
Santa Barbara-Santa Maria-Lompoc	6.2	5.4	6.7	5.9
Santa Rosa	6.3	5.4	7.3	6.2
Stockton	12.0	10.7	15.1	14.0
Vallejo-Fairfield-Napa	8.3	7.6	9.6	8.2
Colorado	5.5	5.6	5.5	5.5
Denver-Boulder	4.8	5.0	4.8	4.9
Connecticut	4.9	4.2	4.8	4.4
Bridgeport	5.9	4.7	5.4	5.0
Hartford	4.6	3.9	4.5	4.0
New Britain	5.9	4.9	5.4	5.3
New Haven-West Haven	5.4	4.2	5.2	4.5
Stamford	3.5	2.7	3.5	2.7
Waterbury	5.5	4.6	5.5	5.2
Delaware	6.8	5.6	6.9	5.9
Wilmington[1]	7.0	5.7	7.0	5.9
District Of Columbia	10.9	8.5	10.7	8.3
Washington SMSA[1]	4.7	4.2	4.6	3.8
Florida[2]	8.6	7.0	8.1	6.2
Daytona Beach	7.3	5.4	7.0	5.1
Fort Lauderdale-Hollywood	7.0	5.6	6.6	4.8
Fort Myers-Cape Coral	7.0	5.4	6.5	4.9
Gainesville	4.8	4.0	4.8	3.6
Jacksonville	8.2	6.5	8.2	5.7
Lakeland-Winter Haven	16.9	14.0	14.4	11.9
Melbourne-Titusville-Cocoa	7.8	5.6	7.4	4.9
Miami	10.1	8.8	9.4	7.3
Orlando	7.1	5.7	6.9	5.1
Pensacola	7.3	6.6	7.3	8.9
Sarasota	5.8	4.8	5.1	4.1
Tallahassee	4.8	4.1	4.6	3.8
Tampa-St. Petersburg	7.4	5.4	6.9	5.0
West Palm Beach-Boca Raton	9.4	7.5	7.7	5.8

State and area	October		November	
	1983	1984	1983	1984p
Georgia	6.7	5.8	6.5	5.6
Albany	9.4	8.9	9.1	7.5
Athens	5.6	4.6	5.4	5.1
Atlanta	5.7	4.6	5.5	4.3
Augusta	8.7	6.7	8.6	6.3
Columbus	7.9	7.7	7.8	8.8
Macon	7.2	6.7	7.1	6.7
Savannah	7.9	7.4	7.7	6.9
Hawaii	6.2	6.3	6.3	5.7
Honolulu	5.7	5.9	5.8	5.3
Idaho	7.3	5.2	8.3	6.4
Boise City	6.4	4.0	6.5	4.5
Illinois[2]	9.4	8.8	9.3	8.1
Bloomington-Normal	6.2	5.7	6.1	5.9
Champaign-Urbana-Rantoul	5.3	4.8	5.6	5.8
Chicago	8.7	8.3	8.5	7.4
Davenport-Rock Island-Moline[1]	12.0	10.6	12.1	11.9
Decatur	11.3	9.1	11.4	8.9
Kankakee	13.5	12.2	13.6	11.5
Peoria	13.3	9.6	12.9	8.9
Rockford	10.8	8.9	13.6	8.3
Springfield	6.6	6.7	6.6	6.0
Indiana	8.9	7.2	9.1	7.6
Anderson	8.6	7.1	8.5	7.7
Elkhart	6.2	5.5	6.4	6.4
Evansville[1]	8.4	7.6	8.6	7.7
Fort Wayne	9.4	6.0	9.5	6.3
Gary-Hammond-East Chicago	13.0	13.7	13.3	13.5
Indianapolis	7.9	5.7	8.1	5.8
Lafayette-West Lafayette	5.8	4.5	6.2	4.5
Muncie	9.3	7.8	9.5	8.2
South Bend	6.8	5.8	7.2	6.1
Terre Haute	10.1	7.4	10.4	7.8
Iowa	6.0	5.8	6.3	6.1
Cedar Rapids	7.0	6.2	6.9	5.9
Des Moines	5.7	4.8	5.8	4.6
Dubuque	8.7	7.1	8.0	7.3
Sioux City[1]	5.6	5.5	6.4	6.0
Waterloo-Cedar Falls	10.4	11.0	10.4	11.1
Kansas	5.0	5.0	4.9	5.4
Lawrence	4.3	3.9	4.2	4.4
Topeka	6.4	6.0	6.1	5.9
Wichita	6.0	5.8	5.7	6.0
Kentucky	9.6	8.9	9.4	8.9
Lexington-Fayette	4.6	4.5	4.6	3.8
Louisville[1]	9.2	8.9	8.8	8.3
Owensboro	7.4	9.0	6.9	8.5
Louisiana	10.5	10.0	10.7	9.7
Alexandria	9.6	10.1	9.7	10.3
Baton Rouge	8.8	9.0	8.9	8.7
Lafayette	8.1	6.6	7.9	6.0
Lake Charles	13.9	13.5	14.6	13.1
Monroe	10.3	9.8	10.3	9.5
New Orleans	9.6	9.8	9.6	9.4
Shreveport	10.0	7.9	10.2	7.6
Maine	7.1	4.9	7.4	5.3
Lewiston-Auburn	7.3	6.1	7.3	5.9
Portland	5.6	3.1	5.3	3.2
Maryland	5.9	5.4	5.7	5.5
Baltimore	6.8	6.4	6.6	6.5

State and area	October		November	
	1983	1984	1983	1984p
Massachusetts[2]	6.4	3.4	5.6	3.4
Boston	5.7	3.1	4.7	2.8
Brockton	7.4	3.9	6.3	3.8
Fall River[1]	8.7	5.1	7.8	5.6
Fitchburg-Leominster	7.2	3.6	6.4	4.7
Lawrence-Haverhill[1]	7.0	4.3	6.1	4.3
Lowell	5.4	2.9	4.4	2.9
New Bedford	9.1	4.9	8.2	5.5
Pittsfield	7.8	4.1	8.4	4.5
Springfield-Chicopee-Holyoke	6.8	3.5	5.9	3.8
Worcester	6.6	3.4	5.5	3.4
Michigan[2]	12.5	10.1	11.7	10.7
Ann Arbor	8.0	(3)	6.8	(3)
Battle Creek	13.3	(3)	12.3	(3)
Bay City	14.0	(3)	14.2	(3)
Benton Harbor	13.8	(3)	12.8	(3)
Detroit	13.1	(3)	11.8	(3)
Flint	14.5	(3)	13.3	(3)
Grand Rapids	10.1	(3)	9.6	(3)
Jackson	14.3	(3)	13.4	(3)
Kalamazoo-Portage	9.7	(3)	9.0	(3)
Lansing-East Lansing	8.9	(3)	8.5	(3)
Muskegon-Norton Shores-Muskegon Heights	14.6	(3)	13.4	(3)
Saginaw	11.9	(3)	11.6	(3)
Minnesota	6.2	5.4	6.7	6.0
Duluth-Superior[1]	15.6	9.4	15.7	12.1
Minneapolis-St.paul	5.3	4.4	5.3	4.4
Rochester	4.5	4.1	4.8	4.8
St. Cloud	6.6	7.2	9.2	8.0
Mississippi	10.4	10.6	10.2	11.0
Jackson	6.9	6.8	6.6	6.5
Missouri	8.2	5.9	8.3	6.0
Kansas City[1]	6.6	4.7	6.4	4.7
St. Joseph	8.8	7.7	9.0	7.3
St. Louis[1]	9.1	7.1	9.0	6.5
Springfield	6.3	4.6	6.5	4.6
Montana	6.9	6.2	8.0	6.6
Nebraska	4.4	4.2	4.7	4.3
Lincoln	3.3	3.0	3.5	2.8
Omaha[1]	4.8	4.8	5.1	4.6
Nevada	8.3	7.8	8.1	8.1
Las Vegas	9.2	8.9	8.9	8.8
Reno	6.4	5.7	6.5	6.5
New Hampshire	3.6	2.8	3.9	3.4
Manchester	3.6	2.6	3.3	2.7
Nashua	3.0	2.1	3.0	2.3
New Jersey[2]	6.0	5.1	6.6	5.4
Atlantic City	6.7	6.3	7.2	6.5
Jersey City	9.4	8.7	10.1	9.4
Long Branch-Asbury Park	5.5	4.6	6.5	4.7
New Brunswick-Perth Amboy-Sayreville	5.2	5.0	5.8	4.7
Newark	5.6	4.9	6.1	5.2
Paterson-Clifton-Passaic	7.6	6.8	8.3	7.4
Trenton	4.8	4.2	5.1	4.2
Vineland-Millville-Bridgeton	11.5	10.1	13.3	11.6
New Mexico	9.1	7.4	9.1	7.5
Albuquerque	8.2	6.5	8.2	6.3
Las Cruces	8.8	7.1	8.7	6.9

State and area	October		November	
	1983	1984	1983	1984p
New York[2]	7.6	7.1	7.3	6.7
Albany-Schenectady-Troy	6.2	5.0	6.2	5.4
Binghamton[1]	6.4	5.5	6.9	5.9
Buffalo	10.0	8.0	10.3	8.6
Elmira	8.1	7.8	8.3	8.8
Glens Falls	7.4	6.7	8.5	8.5
Nassau-Suffolk	5.8	4.8	5.4	4.9
New York	8.5	8.8	7.5	7.3
New York City[2]	9.2	9.7	8.0	7.9
Newburgh-Middletown	6.7	5.7	6.7	5.9
Poughkeepsie	5.6	3.7	5.3	3.8
Rochester	7.1	4.9	7.1	5.6
Syracuse	6.3	5.4	6.2	6.0
Utica-Rome	6.9	6.1	8.2	7.6
North Carolina	7.1	6.8	7.1	7.0
Asheville	6.4	6.4	6.7	7.0
Charlotte-Gastonia	6.0	5.4	5.7	5.5
Greensboro-Winston-Salem-High Point	6.3	6.0	6.0	5.9
Raleigh-Durham	4.1	3.3	4.0	3.4
North Dakota	3.7	4.6	4.8	5.3
Fargo-Moorehead[1]	2.7	2.9	3.4	4.1
Ohio[2]	10.6	9.1	11.0	8.9
Akron	11.0	9.1	11.5	9.0
Canton	13.0	10.1	13.2	10.3
Cincinnati[1]	8.9	8.0	9.3	7.4
Cleveland	10.3	8.9	10.6	8.3
Columbus	8.3	6.9	8.5	6.5
Dayton	8.8	7.3	9.2	7.0
Toledo[1]	11.0	(3)	11.5	(3)
Youngstown-Warren	13.9	12.1	14.4	12.5
Oklahoma	7.9	7.0	7.6	6.8
Enid	6.8	6.3	6.4	6.0
Lawton	6.2	7.1	6.3	5.9
Oklahoma City	6.1	5.6	5.9	5.4
Tulsa	8.8	7.3	8.3	7.1
Oregon	8.7	8.2	9.3	8.9
Eugene-Springfield	8.6	8.3	9.2	8.9
Medford	8.4	8.1	9.4	9.4
Portland[1]	8.8	7.4	8.7	7.4
Salem	7.6	6.8	8.7	7.6
Pennsylvania[2]	9.5	8.2	9.8	8.1
Allentown-Bethlehem-Easton[1]	8.8	8.5	9.2	8.1
Altoona	12.5	9.8	13.2	10.1
Erie	11.6	8.2	12.3	8.8
Harrisburg	5.6	5.0	5.8	4.8
Johnstown	14.7	12.5	15.5	14.7
Lancaster	5.0	4.3	5.2	4.5
Northeast Pennsylvania	10.1	9.8	11.7	9.6
Philadelphia[1]	7.1	6.1	7.2	5.9
Pittsburgh	12.0	10.3	12.2	10.0
Reading	6.8	6.4	6.6	6.1
Sharon	14.3	10.4	14.3	10.4
State College	8.4	7.1	8.5	7.3
Williamsport	11.3	8.8	11.8	8.9

State and area	October 1983	October 1984	November 1983	November 1984p
York	8.7	6.4	8.9	6.4
Rhode Island	6.3	4.4	6.1	4.4
Providence-Warwick-Pawtucket[1]	6.5	4.5	6.2	4.5
South Carolina	8.2	7.0	8.2	7.1
Charleston-North Charleston	7.6	5.4	7.3	4.9
Columbia	6.1	4.5	5.6	4.2
Greenville-Spartanburg	7.1	6.1	7.1	6.0
South Dakota	4.2	4.0	4.8	4.1
Sioux Falls	3.6	3.2	4.3	2.5
Tennessee	9.1	8.2	9.1	8.2
Chattanooga[1]	8.8	6.8	8.6	7.1
Johnson City-Kingsport-Bristol	8.7	7.9	8.3	7.6
Knoxville	8.6	7.1	8.6	7.4
Memphis[1]	8.3	6.7	8.3	6.7
Nashville-Davidson	6.4	5.5	6.3	4.8
Texas[2]	6.9	5.3	6.8	5.4
Abilene	4.6	3.6	4.9	3.7
Amarillo	4.5	4.4	5.5	4.5
Austin	3.8	3.1	3.9	3.0
Beaumont-Port Arthur-Orange	12.1	9.8	11.9	10.5
Brownsville-Harlingen-San Benito	13.5	12.0	13.6	13.0
Bryan-College Station	4.0	3.1	3.6	3.2
Corpus Christi	10.4	7.1	9.9	7.3
Dallas-Fort Worth	4.5	3.4	4.4	3.3
El Paso	10.6	9.2	10.6	10.1
Galveston-Texas City	10.3	8.4	9.8	9.3
Houston	8.2	5.7	7.8	5.9
Killeen-Temple	5.8	5.4	5.6	5.0
Laredo	21.7	13.8	21.0	14.9
Longview-Marshall	9.8	6.9	9.3	7.1
Lubbock	5.9	4.4	7.3	4.2
McAllen-Pharr-Edinburg	19.2	19.0	17.8	21.1
Midland	5.5	3.3	5.3	3.2
Odessa	7.6	4.0	7.4	4.1
San Angelo	4.6	3.7	5.1	3.5
San Antonio	5.6	4.5	5.4	4.5
Sherman-Denison	6.3	4.8	6.4	5.2
Texarkana[1]	8.5	7.4	8.6	7.4
Tyler	5.4	4.1	5.6	4.5
Waco	4.9	5.0	5.0	4.3
Wichita Falls	5.8	4.1	5.6	4.6
Utah	7.4	5.8	7.4	5.9
Salt Lake City-Odgen	7.0	5.4	6.9	5.4
Vermont	5.0	3.3	5.5	3.9
Burlington	3.8	2.4	4.0	2.7
Virginia	5.0	5.2	5.1	5.1
Danville	7.5	8.9	8.6	9.5
Lynchburg	5.0	6.2	6.7	5.6
Newport News-Hampton	5.0	4.7	5.0	4.0
Norfolk-Virginia Beach-Portsmouth[1]	5.1	4.9	4.8	4.5
Petersburg-Colonial Heights-Hopewell	7.7	7.7	8.3	7.0
Richmond	4.0	4.2	4.1	3.9
Roanoke	4.9	4.2	5.1	4.2
Washington	9.5	8.2	10.2	8.7
Seattle-Everett	8.6	7.1	8.7	7.0

State and area	October 1983	October 1984	November 1983	November 1984p
West Virginia	15.1	16.0	14.7	15.6
Charleston	12.0	13.2	11.7	11.8
Huntington-Ashland[1]	16.4	13.6	15.9	12.7
Parkersburg-Marietta[1]	12.5	10.7	12.4	10.6
Wheeling[1]	15.2	15.2	15.1	15.6
Wisconsin	7.9	7.0	8.2	6.7
Appleton-Oshkosh	7.4	6.5	7.7	6.7
Eau Claire	7.4	7.1	8.1	7.4
Green Bay	7.5	6.6	7.9	6.5
Janesville-Beloit	8.6	13.6	9.5	6.8
Kenosha	7.7	7.0	7.6	6.8
La Crosse	6.8	6.1	7.1	5.7
Madison	5.3	4.6	5.5	4.2
Milwaukee	8.2	6.7	8.1	6.0
Racine	8.9	7.5	8.7	7.8
Sheboygan	7.3	6.1	6.9	5.7
Wausau	8.9	7.8	9.2	7.7
Wyoming	6.5	5.2	6.8	5.6

---

[1] Includes interstate portion of area located in adjacent State.

[2] Data are obtained directly from the Current Population Survey. (See "Explanatory Notes" for State and Area Labor Force Data in Employment and Earnings, Monthly.)

[3] Data not available.

p = preliminary.

NOTE: Data refer to place of residence. Estimates for 1983 have been benchmarked to 1983 Current Population Survey annual averages. Except in the 10 States and 2 areas designated by footnote 2, estimates for 1984 are provisional and will be revised when new benchmark information becomes available.

Section 8. Aid to Families With Dependent Children (Title IV-A)

ELIGIBILITY

Aid to dependent children (ADC) was established by the Social Security Act of 1935 as a cash grant program to enable States to aid needy children without fathers. Renamed Aid to Families With Dependent Children (AFDC), the program provides cash welfare payments for needy children (and their mothers or other caretaker relatives), who have been deprived of parental support or care because:

—their fathers are absent from home continuously (86.9 percent of the children),[1] are incapacitated (5.3 percent), deceased (2.2 percent), or unemployed (4.1 percent); or

—their mothers are incapacitated, absent or dead (1.5 percent). (Percentages are from the 1979 AFDC study.)

States define "need," set their own benefit levels, establish (within Federal limitations) income and resource limits, and administer the program or supervise its administration. All States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands offer AFDC to needy children without able-bodied fathers at home, and 25 jurisdictions offer Federal cash supplements also to children in two-parent families who are needy because of the unemployment of one of their parents (Aid to Families With Dependent Children of Unemployed Parents (AFDC-UP)). Eligibility for AFDC on the basis of a parent's unemployment is limited to those families in which the principal wage earner is unemployed.

Eligibility for federally aided AFDC ends on a child's 18th birthday, or at State option upon a child's 19th birthday if the child is a full-time student in a secondary or technical school and may reasonably be expected to complete the program before he or she reaches age 19. Before passage of the Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, a State could continue benefits through age 20 for students.

Federal law requires certain able-bodied recipients, including mothers whose youngest child is at least 6 years old, to register for work or job training. States may require work registrants to participate in one of several work programs: Work Incentive (WIN) Program; Community Work Experience Program (CWEP), Work Supplementation, or Job Search.

In 1981, Congress required that a portion of the income of a stepparent be counted in determining AFDC eligibility and benefit amounts. In 1984, a standard definition of the AFDC assistance unit was established for the first time. Under this new requirement, the parent(s) in the home and all minor related children are to be included in the AFDC unit, with eligibility and benefits based on the income and circumstances of this family unit. SSI recipients and stepbrothers and stepsisters are excluded from this requirement and the first $50 of monthly child support received by the unit is disregarded when determining eligibility and benefits. In addition, if a minor who is living in the same home as her parents applies for aid as the parent of a needy child, the income of the minor's parents is to be counted as available to the filing unit.

---

[1] In May 1982 according to the HHS quality control case sample, 87.6 percent of fathers of AFDC children were absent and 46.5 percent were not married to the children's mother.

Finally, Federal law requires AFDC mothers to assign their child support rights to the State and to cooperate with welfare officials in establishing the paternity of a child born outside of marriage and in obtaining support payments from the father. AFDC also provides cash aid for foster care of AFDC-eligible children removed from their homes by judicial order and, under certain conditions, for those *voluntarily placed* in foster care.

TREATMENT OF EARNINGS

States are required by Federal law to disregard certain earned income when determining the amount of benefits to which a recipient family is entitled. Before OBRA, in order to provide a financial incentive for recipients to seek and maintain employment, Federal law required the deduction of an initial $30 in monthly earnings plus one-third of remaining earnings, plus work expenses (any expenses, including child care costs, reasonably attributable to the earning of income). When making an initial determination of eligibility, however, only work expenses were disregarded.

Amendments in OBRA changed the order in which the disregards were applied, limited the disregard for work expenses to $75 per month, capped the child care disregard at $160 per month per child, and specified that the HHS Secretary could lower these sums for part-time work. The $30 plus one-third disregard was allowed for only 4 consecutive months in a 12-month period. States were prohibited from paying AFDC to any family with a *gross* income above 150 percent of the State's standard of need and were required to assume that working AFDC recipients received a monthly earned income tax credit (EITC), if they appeared eligible for it and regardless of when or if the credit was actually available. Under prior law, the EITC was counted only when received; most AFDC recipients did not receive the EITC on a monthly basis. These changes substantially reduced the amount of earnings a recipient could have and remain eligible for an AFDC payment.

In 1984, Congress further revised these disregards. The gross income limit was increased to 185 percent of the State standard of need, the work expense disregard of $75 per month was applied to both full- and part-time workers, and the $30 disregard—originally a part of $30 and one-third—was extended for an additional 8 months beyond the 4-month limit on the one-third deduction. The 1984 legislation also returned to prior law policy with respect to the earned income tax credit: it is to be counted only when actually received.

Table 1 illustrates the impact of the 1981 and 1984 changes on a mother with two children working full-time at the minimum wage. The need and payment standard are assumed to be $420 per month, roughly equivalent to the payment level in a high benefit State or $324 per month, the average payment level for a family of three in 1984.

TABLE 1.—CALCULATION OF BENEFITS FOR A FULL-TIME MINIMUM WAGE WORKER UNDER PRE-OBRA, OBRA, AND CURRENT LAW

	Pre-OBRA	OBRA		New law (DEFRA)		
		First 4 months	After 4 months	First 4 months	After 4 months	After 12 months
Income:						
Gross earnings	581	581	581	581	581	581
EITC		+32	+32			
Gross income	581	613	613	581	581	581
Disregards:						
Initial disregards [1]	−30	−105	−75	−105	−105	−75
One-third of rest	−194	(2)	(2)	(2)	(2)	(2)
Child care	−100	−100	−100	−100	−100	−100
One-third of rest	(2)	−136	0	−125	0	0
Other expenses	−70	(2)	(2)	(2)	(2)	(2)
Total disregards	394	341	175	330	205	175
Net countable income	187	272	438	251	376	406
AFDC benefits:						
$420 payment standard	233	148	0	169	44	14
$324 payment standard	137	52	0	73	0	0

[1] Pre-OBRA: $30 disregard. OBRA: Standard work expense deduction of $75 plus $30 in first 4 months. New Law: Standard work expense deduction of $75 plus $30 disregard in first 12 months.

[2] Not applicable.

[3] Itemized work expenses including payroll deductions and transportation.

MONTHLY REPORTING AND RETROSPECTIVE BUDGETING

AFDC eligibility and benefits are determined monthly. Public Law 97-35 required States to determine eligibility on the basis of the family's circumstances in the current month; payment amounts were to be determined "retrospectively"—on the basis of the family's countable income and resources in the preceding month (or, at the discretion of the Secretary of Health and Human Services, the second preceding month). In addition, States were to require recipients to provide monthly reports on income, family composition, and resources. However, the Secretary could waive this requirement if the State demonstrated that it would be cost-beneficial to do so. The only categories of recipients that could not be exempted were those with earned income or recent work history.

In 1984, Public Law 98-369 revised these monthly reporting and retrospective budgeting requirements. Retrospective budgeting is now mandatory only for cases which file a monthly report. Monthly reporting is required for cases with earned income or a recent work history and whenever cost effective.

WORK REQUIREMENTS AND PROGRAMS

As a condition of AFDC eligibility, persons 16 years of age or older, who are receiving or applying for AFDC, must register for work and training. An individual may be exempt from the work registration requirement if he or she is unable to participate due to illness, incapacity, advanced age, full-time student status, remoteness from a work incentive (WIN) program site, the need to care for an ill or incapacitated member of the household, or working at least 30 hours per week. Also exempt is the parent caring for a child under 6 years of age; in a two-parent family, one parent is exempt if the second parent is registered for work.

Work registration is one component of the work incentive (WIN) program. All States operate a WIN program or a WIN demonstration program. In addition, the act permits States to offer several other employment programs. These are: job search; the community work experience program, and work supplementation. Some States are also operating grant diversion programs and other innovative work programs under AFDC demonstration authority.

The WIN program and WIN demonstrations

The WIN program was established in 1967 with the purpose of providing skill assessments, job training, and employment placements to help AFDC recipients to become self-supporting (see tables 2–3). At the Federal level, the program is jointly administered by the Department of Labor and the Department of Health and Human Services. A dual administrative structure is also in place at the State level, unless the State has elected to operate a WIN demonstration project. These projects, authorized by OBRA (Public Law 97–35), permit States to design an alternative to WIN, administered solely by State welfare agencies. The Department of Health and Human Services oversees these demonstrations. By the end of fiscal year 1983, 20 States were operating WIN demonstrations. Two additional States received approval in fiscal year 1984 and will begin operation in January 1985. Table 4 identifies the WIN demonstration States and the date the demonstration began.

In fiscal year 1981, Federal funding for the WIN program totaled $365 million. By fiscal year 1984, Federal WIN funding had declined to $271 million. Funding limitations have restricted the States' ability to provide WIN services and training to AFDC recipients. As a result, many WIN registrants do not ever receive skills assessments, training, or job placements. As of September 1984, an estimated 1.5 million individuals registered with WIN, of a total AFDC caseload of 3.7 million families or 10.7 million individuals.

AFDC recipients who are selected for participation in WIN must accept available jobs, training or needed services to prepare them for employment. Refusal to do so without good cause will result in a sanction. In the case of two-parent families, the entire family is made ineligible. In the case of a single parent who refuses to work, payment to the nonworking adult is denied, but protective payments continue for the children. Protective payments are payments to a third party. Usually a relative, neighbor or friend will receive the benefit check on behalf of the child; sometimes the State caseworker will serve as protective payee.

Effective for tax years beginning after December 31, 1981, WIN registrants and AFDC recipients were added to the list of target groups for whom employers can receive a targeted jobs credit. The credit is equal to 50 percent of up to $6,000 in wages for the first year of employment and 25 percent of such wages for the second year.

TABLE 2.—WIN PROGRAM DATA, FISCAL YEARS 1981–84

[Persons in thousands, dollars in millions]

	Fiscal year—					
	1981	1982 [1]	1983 [2] regular	1983 [3] demo.	1984 [2] regular	1984 [3] demo.
New registrants	1,156	903	623	465	592	424
Registrants on board (end of year)	1,567	1,006	859	641	858	641
Job search/intensive employability services	135	153	114	NA	128	NA
Work and training components (average annual enrollment)	24	14	11	NA	32	NA
Individuals entering unsubsidized employment [4]	310	204	124	132	162	193
Persons off welfare because employed [5]	169	144	65	61	95	83
6-month retention rate	61.5	62.3	61.1	59.0	60.9	59.3
Welfare cost savings [6]	$760	$521	$335	n.a.	$354	$233
Appropriation	$365	$281	[7] $271		[7] $271	

[1] 11 States implemented in various months the WIN demonstration program during the latter part of fiscal year 1982.

[2] 34 States or jurisdictions.

[3] 20 States or jurisdictions.

[4] Individuals entering unsubsidized employment whose employment was expected to last 30 days or more.

[5] Indicates number of individuals who completely went off welfare because of employment.

[6] A new estimating procedure was adopted by the Department of Labor in fiscal year 1983, using recommendations of the General Accounting Office to avoid certain duplications.

[7] Total appropriation for both regular WIN States and WIN demonstration States.

NA—not available.

Source: Data provided by U.S. Department of Labor; table compiled by Congressional Research Service.

TABLE 3.—WIN REGISTRANTS AND JOB ENTRANTS BY SELECTED CHARACTERISTICS, FISCAL YEAR 1982–84

[In percentages]

	Fiscal year 1982		Fiscal year 1983 [1]		Fiscal year 1984 [1]	
	Registrants	Job entrants	Registrants	Job entrants	Registrants	Job entrants
Sex:						
Male (total)	28.2	33.5	30.2	37.5	29.0	37.4
(Unemployed fathers)	(15.8)	(22.0)	(20.0)	(26.3)	(19.0)	(25.4)
Female	71.7	66.5	69.8	62.5	71.0	62.6
Ethnic group:						
White	44.5	55.2	43.9	57.0	42.5	54.6
Black	37.5	28.9	31.6	24.3	34.3	26.3
Hispanic	([2])	([2])	17.2	14.1	17.0	15.0
Other	17.9	15.9	7.3	4.6	6.2	4.1
Years of school completed:						
0 to 8	16.4	10.7	15.5	8.7	15.2	8.6
9 to 11	38.0	33.1	35.9	31.1	36.2	30.9
12	35.5	42.7	37.3	44.8	37.8	46.2
Over 12	10.1	13.5	11.3	15.4	10.8	14.3
Age:						
Under 22	12.9	10.6	13.0	10.3	12.9	9.5
22 to 44	75.3	82.3	76.2	83.4	76.0	83.9
45 or older	11.8	7.1	10.8	6.3	11.1	6.6
Registrant status:						
Mandatory	88.1	83.8	91.5	89.0	91.6	89.2
Voluntary	11.9	16.2	8.5	11.0	8.4	10.8

[1] Data are for 34 States or jurisdictions only.

[2] Separate data for Hispanics not available prior to fiscal year 1983.

Source: Data provided by U.S. Department of Labor; table compiled by Congressional Research Service.

Job search

The act permits States to require AFDC applicants and recipients to participate in a program of employment search beginning at the time of application. After an initial 8-week search period for applicants, AFDC recipients may be required to participate in 8 weeks of job search each year. This means that in the first year, up to 16 weeks of employment search may be required, with 8 weeks per year thereafter.

All WIN registrants, those exempt because they are remote from WIN sites, and applicants who appear to be WIN eligible may be required to participate in the job search program. At State option the job search requirement may be limited to certain groups or classes of individuals who are required to register for WIN. Transportation and other necessary costs incurred by participants must be reimbursed; States receive 50 percent Federal matching funds for these costs and may not use the job search requirement as a reason for delaying eligibility determinations or payments to those who are otherwise eligible. An individual who fails to comply with the job search requirement is subject to the sanctions described for the WIN program. Table 4 lists the States that have elected to require job search.

Community work experience program

Under authority granted by OBRA, States may operate community work experience programs (CWEP) if they so choose. These programs are commonly referred to as "workfare" and require adult AFDC recipients to perform some sort of community work, such as park beautification or as a teacher aide, in exchange for the AFDC benefit. The individual does not become a paid employee but, instead, works off the AFDC benefit. The number of hours a person works may not exceed their AFDC grant divided by the applicable minimum wage. CWEP participants do not receive the earned income disregards.

States may require CWEP participation by most AFDC recipients who are registered for WIN. However, unlike WIN, which exempts parents with children under the age of 6 from the work requirement, CWEP may require parents caring for children under age 6 (but not under age 3) to participate if child care is available. As of September 30, 1984, 23 States had opted to implement some kind of community work experience program. Most State workfare programs are not statewide. Table 4 identifies the States with a CWEP program.

Work supplementation and grant diversion

Finally, OBRA also permits States to operate work supplementation programs, in which AFDC may be used to subsidize a job for an AFDC recipient. In 1984, Congress amended the work supplementation provisions established by OBRA to give States greater flexibility. Under the original work supplementation program authorization, States could set their own eligibility requirements, adjust need standards and operate the program without regard to the regular statewideness and earned income disregard rules. Funds accrued from reducing the need standard or revising the earned income disregards were to be used to help defray the costs of subsidizing employment opportunities. However, the act limited Federal funding for an AFDC program which included a work supplementation component to that which would have been available to a State under its May 1981 State plan, adjusted for mandatory changes in Federal law and caseload changes within the State. Because of this restriction and the requirement that work supplementation jobs be limited to public or nonprofit organizations, States did not elect this option.

In 1984, the Deficit Reduction Act amended the work supplementation program requirements. Under the new law: (1) recipients may be placed in jobs offered by private as well as nonprofit employers; (2) States are permitted but not required to offer a $30 plus one-third earned income disregard for up to 9 months for participants; (3) Federal funding is limited to the aggregate of 9 months worth of unreduced welfare grants for each participant in the work supplementation program (or less if the person participates for fewer than 9 months); and (4) a State is permitted to develop its own method by which AFDC grants are diverted to wages and is not limited to prior law requirements. This will permit States to pool the benefits of AFDC recipients actually participating in the program rather than diverting the grant on an individual case basis. The State of Minnesota is now operating a work supplementation program; several other States are considering the work supplementation option.

A number of States have also requested and received waivers, under section 1115 of the act, which permit them to operate a similar program called grant diversion. In a grant diversion program, States may use the AFDC benefit as a wage subsidy to encourage employers to hire AFDC recipients. Private, for-profit employers may participate in grant diversion. The wage subsidy is for a limited period, usually no more than 6 months. In 1984, 11 States operated grant diversion programs under this special authority. Table 5 summarizes the State grant diversion programs.

TABLE 4.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS

[Data as of Sept. 30, 1984]

State	Date WIN demonstration implemented	CWEP	IV-A job search
Alabama		Implemented in 1 county April 1982.	
Arizona	June 1, 1982		
Arkansas	Sept. 30, 1982	Implemented in 1 county September 1982; now WIN Demo.	
California	*	Implemented [1] in 1 county July 1982.	
Colorado		Implemented in 1 county October 1982; now operating in 25 counties.	
Delaware	Apr. 1, 1982		
Florida	Apr. 1, 1982		
Georgia	*	Implemented in 10 counties August 1982; now operating in 8 counties.	
Idaho		Implemented in January 1982: statewide since April 1982.	
Illinois	July 1, 1982	Implemented in 12 counties in February 1984.	
Iowa	Sept. 30, 1983	Implemented for regular AFDC cases in 5 counties July 1982; currently operating in 49 counties for UP cases.	
Kansas		Implemented in 4 counties May 1983. Currently operating in 9 counties.	Implemented for recipients only May 1983.
Kentucky		Implemented in 2 counties September 1982; phased out December 1982; implemented in 8 counties August 1983.	
Maine	Apr. 1, 1982		Implemented for recipients only January 1983.
Maryland	Sept. 30, 1982		
Massachusetts	Apr. 12, 1982		Implemented for applicants and recipients in 16 counties October 1982. Statewide for UP's only.
Michigan	Apr. 1, 1982	Implemented July 1982; now operating statewide.	

TABLE 4.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS—Continued

[Data as of Sept. 30, 1984]

State	Date WIN demonstration implemented	CWEP	IV–A job search
Minnesota		In 3 counties March 1983; now operating in 7 counties.	
Nebraska	Sept. 30, 1982		
New Jersey	Oct. 1, 1982		
New Mexico		Implemented[1] in 1 county March 1983.	
New York		Approved[1] January 1982; now operating in 20 counties and in New York City.	
North Carolina		Implemented[1] in 6 counties July 1982; now operating in 8 counties.	
North Dakota		Implemented in 2 counties January 1982; now operating in 12 counties.	
Ohio		Implemented[1] in 4 counties March 1983; now operating in 8 counties.	Implemented for recipients only in 4 counties March 1983; now operating in 8 counties.
Oklahoma	Jan. 1, 1982	Implemented statewide January 1982.	Implemented statewide for applicants and recipients April 1983.
Oregon	Jan. 1, 1982		Operating program with waivers.
Pennsylvania	Sept. 30, 1982	Implemented[1] statewide March 1983 as part of WIN demonstration.	
South Carolina		Implemented[1] in 2 counties May 1982.	
South Dakota	Apr. 1, 1982	Approved April 1982 and implemented in 40 counties; now operating statewide.	
Texas	Mar. 4, 1982		Implemented April 1983 for applicants and recipients.
Vermont			Implemented for UP applicants only in April 1983.
Virginia	Jan. 1, 1983	Implemented[1] statewide January 1983 as part of WIN Demonstration.	Implemented statewide January 1983 for applicants and recipients.
Washington		Implemented[1] in 2 counties June 1982.	To be implemented statewide for applicants and recipients in October 1984
West Virginia	Sept. 27, 1982	Implemented[1] statewide for UP's January 1982; now operating statewide for UP and regular AFDC recipients as part of WIN demonstration.	
Wisconsin	Sept. 30, 1983.		

---

[1] Denotes CWEP demonstration.

* Approved to begin operation, January 1985.

Source: Office of Family Assistance, Social Security Administration.

TABLE 5.—STATE PARTICIPATION IN GRANT DIVERSION DEMONSTRATION PROJECTS AND WORK SUPPLEMENTATION PROGRAMS

	AFDC for family of 3, 1985	Wage subsidy	Duration	Basis for subsidy/duration	Voluntary/mandatory	Location	Annual participation goal
Arizona	$233	30 percent nte $180	6 months maximum	Flat 30 percent nte $180.	Mandatory	Statewide	1,000
Colorado	346	100 percent including other State/local funds.	8 week cycles	Fixed subsidy and duration (short term public employment).	Mandatory	1 county	500
Florida	240	33 percent AFDC; 50 percent JTPA; 83 percent total.	6 months average (up to 1 yr.).	Flat 50 percent JTPA flat amount AFDC ($190); duration—DOT code.	Mandatory	Statewide	1,600
Maine	360	50 percent	6 months maximum	Flat 50 percent; duration may vary.	Mandatory	Statewide	108
Maryland	313	50 percent	4 month average	Flat 50 percent; duration may vary.	Mandatory	2 counties	140
Minnesota	524	At least 50 percent from grant diversion plus other funds (WIN, JTPA, State).	6 months	Up to $330 from diverted grant; duration—DOT code.	Voluntary	27 counties	500
New Jersey	385	50 percent	5 months average (6 mos. max.).	Flat 50 percent; duration may vary.	Mandatory	5 counties	500
New York	474	$250/month	6 months maximum	Flat amount ($250); duration may vary.	Mandatory	30 counties	500
Ohio	276	AFDC grant	18 months (FFP for 9 mos.; State match only for 9 mos.).	Entire grant diverted; duration may very.	Voluntary	10 counties	300

Texas	167	25 percent	2 months work exp.; 4 months grant diversion.	Flat amount ($148); duration may vary.	Voluntary	4 counties	1,600
Vermont	531	50 percent	6 months	Flat 50 percent nte $2,400; duration fixed.	Voluntary	Statewide	200

nte—Not to exceed.

Source: Office of Family Assistance, Social Security Administration.

TREATMENT OF RESOURCES

Allowable resources are limited, by Public Law 97-35, to $1,000 (equity value) per family, excluding the home and one automobile if the family member's ownership interest does not exceed a limit chosen by the Secretary of Health and Human Services. HHS regulations set $1,500 as the equity value limit for the automobile and permit States to exclude from countable resources "basic items essential to day to day living," such as clothing and furniture. Previous regulations permitted States to adopt a counted resource limit as high as $2,000 per family member, but allowed States to consider the home and auto as counted resources.

AFDC FOR UNEMPLOYED PARENTS (AFDC-UP)

The original Social Security Act permitted States to give AFDC only to needy children in one-parent homes, unless the second parent were incapacitated. Then, as now, most AFDC children lived in fatherless homes. For the first 25 years of the program, if a father lost his job and his family became needy, State AFDC programs were forbidden to help the family so long as he lived at home. In 1961, in an antirecession measure, the law was changed so that jobless fathers at home would not disqualify their families for welfare. Since May of that year States have been permitted to give AFDC to needy children of unemployed parents.

At first the States defined "unemployment," and some included fathers who worked as much as 35 hours a week, but since 1971 Federal regulations have specified that an AFDC parent can work no more than 99 hours a month to be classified as unemployed.

Congress in 1981 (Public Law 97-35) specified that the qualifying unemployed parent must be the family's principal earner. Almost half of the 54 jurisdictions with AFDC programs never have used the option to give AFDC cash benefits to the unemployed and partly employed. The number of AFDC-UP State programs in recent years has ranged from 23 (December 1982) to 29 (September 1979), and in September 1984 was 25. The States now participating contain about 68 percent of the Nation's total AFDC caseload, including most relatively high-benefit States. Expansion of AFDC eligibility to unemployed parents has been resisted, at least in some of the remaining States, because of the added costs.

During the 1970's, the AFDC-UP program served a monthly average of 120,000 families. In recent years the number of AFDC-UP families has risen sharply: fiscal year 1981, 209,000 families (monthly average); fiscal year 1982, 232,000; fiscal year 1983, 272,000, and fiscal year 1984, 288,000.

Enrollment in September 1984 (see table 6) was 258,000 families (1,109,492 persons), well below the peak number of 284,000 families in April 1983. AFDC-UP families in September 1984 averaged 4.3 persons, and they received payments averaging $479 per family, $111 per person.

TABLE 6.—AFDC-UP RECIPIENTS OF CASH PAYMENTS AND AMOUNTS OF PAYMENTS BY STATE, SEPTEMBER 1984 (INCLUDES NONMEDICAL VENDOR PAYMENTS) PRELIMINARY DATA

State	UP money payments	Number of families	Number of recipients	Average payment per—	
				Family	Recipient
California	$49,662,084	75,791	343,608	$655	$145
Colorado	820,098	1,976	8,534	415	96
Connecticut	676,134	1,226	5,533	551	122
Delaware	50,511	165	701	306	72
District of Columbia	132,288	435	1,428	304	93
Hawaii	594,703	1,246	5,856	477	102
Illinois	5,345,205	15,954	67,085	335	80
Iowa	1,661,899	4,202	19,251	396	86
Kansas	668,778	1,915	8,002	349	84
Maryland	554,342	1,652	6,585	336	84
Massachusetts	961,431	2,065	8,987	466	107
Michigan	15,995,388	36,726	151,976	436	105
Minnesota	3,556,620	6,391	27,665	557	129
Missouri	918,170	3,117	13,314	295	69
Nebraska	426,822	1,084	4,718	394	90
New Jersey	2,025,100	5,200	20,500	389	99
New York	7,675,000	15,921	68,462	482	112
Ohio	12,641,402	37,558	155,972	337	81
Pennsylvania	5,339,029	14,992	62,801	356	85
Rhode Island	93,102	241	1,042	386	89
Vermont	301,377	646	2,593	467	116
Washington	2,096,116	4,152	17,346	505	121
West Virginia	2,132,114	9,105	37,791	234	56
Wisconsin	8,986,622	15,709	68,172	572	132
Guam	93,126	325	1,570	287	59
U.S. total	123,407,461	257,794	1,109,492	479	111

INTERACTION BETWEEN AFDC AND OTHER PROGRAMS

Medicaid

States must provide Medicaid to families receiving cash assistance under AFDC. The Deficit Reduction Act of 1984 (Public Law 98-369) also requires States to extend this categorically needy Medicaid coverage, at regular Federal matching rates, to the following groups meeting AFDC income and resource requirements: (1) first-time pregnant women from medical verification of pregnancy; (2) pregnant women in two-parent families where the principal earner is unemployed, from medical verification of pregnancy; and (3) children born on or after October 1, 1983, up to age 5, in two-parent families.

When families lose AFDC eligibility, categorical Medicaid eligibility also frequently ends, except under certain circumstances. Prior to 1984, categorical Medicaid eligibility was retained after the loss of AFDC eligibility only in the case of families whose earnings increased to the point that they would be ineligible even if the $30 plus one-third disregard were applied. These families were eligible for Medicaid for four additional months. If a family lost eligibility for AFDC because of the 4-month limit on the $30 plus one-third disregard, it also simultaneously lost categorical eligibility for Medicaid.

Public Law 98-369 requires States to provide 9 months of Medicaid coverage to families who lose eligibility for AFDC due to the termination of the one-third disregard. States have the option of extending this coverage for an additional 6 months in the case of a family that would be eligible for AFDC if the $30 plus one-third disregard were applied. Families who lose AFDC due to an increase in earnings continue to be eligible for 4 months of Medicaid benefits. In addition, the Child Support Enforcement Amendments of 1984 (Public Law 98-378) require States to provide 4 months of Medicaid coverage to AFDC families who lose eligibility due to receipt of child support payments.

Families who do not meet the criteria established in the 1984 amendments discussed above, and those who have exhausted these benefits, may also qualify for medically needy programs which are offered by 33 States and the District of Columbia. However, many State medically needy programs are less comprehensive than the basic Medicaid program and are of greatest benefit to families who incur large medical expenses.

Food stamps

Most AFDC families are also eligible for and participate in the food stamp program, which provides an important in-kind supplement to the cash assistance paid under AFDC. Although food stamp benefits are not counted in determining AFDC eligibility, the food stamp program does consider AFDC payments to be countable income and reduces the food stamp benefit by $0.30 for each dollar of countable cash income. This interaction between AFDC and the food stamp program has important financial implications for a State which desires to increase the income of its AFDC recipients. Because food stamps are reduced by $0.30 for each additional $1 of AFDC income, the State must expend $1.43 to obtain an effective $1 increase in AFDC recipients' total income. For a State with a 50 percent matching rate, the State must expend $0.72 to actually obtain a $1 increase in recipient income. This would be the typical situation for an AFDC recipient with no earnings.

The following example illustrates the interaction of these and other programs for a mother with two children at various earning levels. The example assumes the family lives in the State of Pennsylvania which pays AFDC benefits that are slightly above average; calculations are made after the mother has been working for 4 months and lost the one-third earned income disregard.

EARNINGS AND BENEFITS FOR A MOTHER WITH TWO CHILDREN WITH DAYCARE EXPENSES—AFTER 4 MONTHS ON JOB (JANUARY 1985)—(PENNSYLVANIA)

Earnings	EITC	AFDC [1]	Food stamps [2]	Medicaid	Taxes			Work expenses [4]	"Disposable" income
					Social security	Federal income [3]	State income		
0	0	$4,368	$1,527	Yes	0	0	0	0	[5] $5,895
$2,000	$220	3,958	1,269	Yes	$150	0	0	$1,060	[5] 6,237
$4,000	440	2,288	1,389	Yes	300	0	0	2,120	[5] 5,697
$5,000	550	1,448	1,449	Yes	375	0	$12	2,660	[5] 5,400
$6,000	550	728	1,498	Yes	450	$54	141	3,180	[5] 4,951
$7,000	489	0	1,478	[6] Yes	525	164	165	3,180	[5] 4,933
$8,000	367	0	1,262	[7] Yes	600	274	188	3,180	5,387
$9,000	245	0	1,046	No	675	384	212	3,180	5,840
$10,000	122	0	830	No	750	520	235	3,180	6,267
$15,000	0	0	0	No	1,125	1,305	353	3,180	9,037
$20,000	0	0	0	No	1,500	2,226	470	3,180	12,624
$30,000	0	0	0	No	2,250	4,641	705	3,180	19,224
$50,000	0	0	0	No	2,792	11,284	1,175	3,180	31,569

[1] Assumes these deductions (standard plus prorated cost of care for one child): $1,810 at earnings of $2,000, $2,360 at $4,000, $2,630 at $5,000, $2,910 at $6,000, and $3,180 (maximum under AFDC law) at $7,000 and above.

[2] Assumes these deductions (reflecting proration for dependent care at amounts assumed for AFDC): $1,140 at zero earnings, $1,690 at $2,000, $2,240 at $4,000, $2,510 at $5,000, and $2,748 (maximum) at $6,000 and above.

[3] Head of household rates in effect for 1985.

[4] Assumed to equal deductions presumed in AFDC calculations, except that AFDC standard deduction during first year of work ($105 monthly) is prorated for earnings below $6,000.

[5] Plus medicaid, which in fiscal year 1983 cost about $1,700 for a 3-person AFDC family (national average).

[6] Family would qualify for Medicaid for 9 additional months under new Federal law, which requires State to continue Medicaid that long for a family whose earnings removed them from AFDC, provided the family would have retained AFDC eligibility if one-third of residual earnings had been disregarded beyond 4 months.

[7] To regain Medicaid eligibility, family must spend down on medical expenses to State's medically needy limit ($4,700, as of June 1984).

Source: Congressional Research Service.

SSI and Social Security

In AFDC, Social Security benefits are treated as unearned income and thus AFDC benefits are reduced by $1 for each $1 of OASDI benefits. SSI benefits received by a potential member of an AFDC family are treated differently. This member (both a child or an adult receiving SSI benefits) is not regarded as a part of the AFDC unit. Thus his needs are not taken into account in determining the AFDC benefit level. At the same time, the income and resources of the SSI recipient are also ignored in determining the AFDC benefit.

CURRENT BENEFIT LEVELS AND TRENDS

Each State establishes a "need standard" (the income the State decides is essential for basic consumption items) and a "payment standard" (100 percent or less of the need level). Benefits are generally computed by subtracting countable income from the State's payment standard.

Maximum payments

Maximum AFDC payments vary sharply from State to State, as shown by tables 7 and 8. State payments for AFDC families of three with no countable income in January 1985 ranged from $96 in Mississippi to $719 in Alaska. Table 7 presents the gross income limit, the need standard, and the maximum monthly potential AFDC and food stamp benefits for a one-parent family of three persons, as of January 1985.

The food stamp benefits are calculated by deducting from the family's AFDC benefit (the only cash income of the family) the maximum deductions allowed under food stamps for a nonaged, nondisabled family: a total of $229. This consists of a standard deduction of $95, given in all households, plus a deduction of $134 for excess shelter costs and/or dependent care costs.

If the family qualified only for the standard deduction, its food stamp benefits would be cut in most States by about $40. Table 7 shows combined maximum potential benefits of $546 to a New Jersey AFDC family of 3, including $161 in food stamps. The same family would receive only $506 in combined benefits, including $121 in food stamps, if it were credited only with the standard deduction. Food stamp program data show that most AFDC families do qualify for a deduction of some shelter costs.

During 1984, 32 States plus the District of Columbia (33 jurisdictions) increased AFDC payments. Twenty-three increased payments over $15 per month while nine jurisdictions increased payments by less than $15 per month. Payment increases were the largest in South Carolina ($55 per month), New Hampshire ($40), California ($35), Maine ($35), District of Columbia ($33) and Vermont ($30). Missouri with a $3.00 AFDC payment increase was the lowest. The average AFDC payment increase of the 32 States and the District of Columbia, was $21. Nineteen States had no payment increases. One State plus the Virgin Islands (two jurisdictions) lowered payments. Despite these increases the median State benefit declined from $383 to $379 per month, in constant dollars.

During 1983, 22 States and two outlying areas increased AFDC benefits; five States reduced benefits. The maximum benefit of the median State (for a 3-person family) rose by $11, to $321. This was a gain of 3.5 percent. During 1982, 23 States and one jurisdiction increased benefits while three States and one jurisdiction lowered benefits.

TABLE 7.—GROSS INCOME LIMIT, NEED STANDARD, AND MAXIMUM MONTHLY POTENTIAL BENEFITS, AFDC AND FOOD STAMPS, ONE-PARENT FAMILY [1] OF THREE PERSONS, JANUARY 1985

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum AFDC grant [2]	Food stamp benefit [3]	Combined benefits	Combined benefits as a percent of 1984 poverty threshold [4]
Alabama	$710	$384	$118	$208	$326	47
Alaska	1,330	719	719	192	911	106
Arizona	431	233	233	206	439	64
Arkansas	433	234	164	208	372	54
California	1,027	555	555	110	665	96
Colorado	779	421	346	172	518	75
Connecticut	1,010	546	546	112	658	95
Delaware	531	287	287	190	477	69
District of Columbia	1,210	654	327	178	505	73
Florida	740	400	240	204	444	64
Georgia	677	366	208	208	416	60
Hawaii	866	468	468	276	744	94
Idaho	1,025	554	304	185	489	71
Illinois	1,169	632	302	186	488	71
Indiana	568	307	256	199	455	66
Iowa	919	497	360	168	528	77
Kansas	690	373	373	164	537	78
Kentucky	364	197	197	208	405	59
Louisiana	995	538	190	208	398	58
Maine	944	510	370	165	535	78
Maryland	801	433	[5] 313	195	508	74
Massachusetts	1,160	627	396	157	553	80
Michigan (Washtenaw County)	1,095	592	[5] 447	164	611	89
Michigan (Wayne County)	1,030	557	[5] 417	173	590	86
Minnesota	969	524	524	119	643	93
Mississippi	529	286	96	208	304	44
Missouri	577	312	263	197	460	67
Montana	742	401	332	177	509	74
Nebraska	648	350	350	171	521	76
Nevada	527	285	233	206	439	64
New Hampshire	699	378	378	163	541	78
New Jersey	712	385	385	161	546	79
New Mexico	477	258	258	199	457	66
New York (Suffolk County)	1,071	579	[5] 579	112	691	100
New York (New York City)	877	474	[5] 474	143	617	89

TABLE 7.—GROSS INCOME LIMIT, NEED STANDARD, AND MAXIMUM MONTHLY POTENTIAL BENEFITS, AFDC AND FOOD STAMPS, ONE-PARENT FAMILY [1] OF THREE PERSONS, JANUARY 1985—Continued

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum AFDC grant [2]	Food stamp benefit [3]	Combined benefits	Combined benefits as a percent of 1984 poverty threshold [4]
North Carolina	825	446	223	208	431	62
North Dakota	686	371	371	165	536	78
Ohio	1,160	627	290	189	479	69
Oklahoma	522	282	282	192	474	69
Oregon	714	386	[5] 386	196	582	84
Pennsylvania	1,136	614	364	167	531	77
Rhode Island	886	479	[5] 479	171	650	94
South Carolina	346	187	187	208	395	57
South Dakota	609	329	329	178	507	73
Tennessee	455	246	138	208	346	50
Texas	1,027	555	167	208	375	54
Utah	1,267	685	363	167	530	77
Vermont	1,576	852	558	109	667	97
Virginia	672	363	327	178	505	73
Washington	1,421	768	[5] 476	143	619	90
West Virginia	509	275	206	208	414	60
Wisconsin	1,162	628	533	116	649	94
Wyoming	490	265	265	197	462	67
Guam	490	265	265	306	571	83
Puerto Rico	333	180	90	NA	NA	NA
Virgin Islands	387	209	171	267	438	63
Median AFDC State [6]	779	401	327	178	505	73

---

[1] In most States these benefit amounts apply also to 2-parent families of 3 (where the second parent is incapacitated, or, as permitted in almost half the States, unemployed). Some, however, increase benefits for such families.

[2] In States with area differentials, figure shown is for area with highest benefit.

[3] Food stamp benefits are based on maximum AFDC benefits shown and assume deductions of $229 monthly ($95 standard household deduction plus $134 maximum allowable deduction for excess shelter cost and/or dependent care) in the 48 contiguous States and D.C. In the remaining five jurisdictions these maximum allowable food stamp deductions are assumed: Alaska, $395; Hawaii, $326, Guam, $353 and, Virgin Islands $182. If only the standard deduction were assumed, food stamp benefits would drop by $40 monthly in most of the 48 contiguous States and D.C. Maximum food stamp benefits from November 1984 through September 1985 are $208 for a family of three except in these 4 jurisdictions, where they are as follows: Alaska, $290; Hawaii, $319; Guam, $306; and Virgin Islands, $267.

[4] Except for Alaska and Hawaii, this column is based on the Census Bureau's 1984 poverty threshold for a family of three persons, $8,280, converted to a monthly rate of $690. For Alaska, this threshold was increased by 25 percent; for Hawaii, by 15 percent, following the practice of the Office of Management and Budget.

[5] In these States part of the AFDC cash payment has been designated as energy aid and is disregarded by the State in calculating food stamp benefits. Michigan disregards $74. New York disregards $30, the full

amount of a benefit boost voted in May 1981. Oregon disregards $118, Rhode Island disregards $127.85, Washington disregards $32, and Maryland disregards $43.

[6] Among 50 States and D.C.

Note.—Puerto Rico was deleted because it does not have a food stamp program, instead a cash nutritional assistance payment is given to recipients.

Source: Table prepared by CRS from information provided by a telephone survey of the States.

TABLE 8.—MAXIMUM AFDC BENEFITS, BY FAMILY SIZE, JANUARY 1985 [1]

State	2-person family	3-person family	4-person family	5-person family	6-person family
Alabama	$88	$118	$147	$177	$206
Alaska* [2]	638	719	800	881	962
Arizona* [3]	180	233	282	322	360
Arkansas	135	164	191	217	242
California*	448	555	660	753	847
Colorado [2] [4]	272	346	420	498	574
Connecticut* [5]	440	546	636	718	802
Delaware*	212	287	336	416	475
District of Columbia	257	327	399	460	540
Florida [3]	185	240	284	328	370
Georgia	174	208	245	280	304
Hawaii* [6]	390	468	546	626	709
Idaho	245	304	344	385	418
Illinois [7]	250	302	368	434	495
Indiana	196	256	316	376	436
Iowa	305	360	419	464	516
Kansas* [8]	314	373	422	465	508
Kentucky*	170	197	246	288	326
Louisiana [9]	138	190	234	277	316
Maine [2]	275	370	465	560	655
Maryland	244	313	376	436	481
Massachusetts	328	396	463	843	951
Michigan:					
(Washtenaw County) [10]	368	447	542	628	753
(Wayne County) [10]	338	417	512	598	723
Minnesota* [2]	431	524	611	685	761
Mississippi	60	96	120	144	168
Missouri	211	263	308	349	388
Montana [3]	279	332	425	501	564
Nebraska *	280	350	420	490	560
Nevada [2]	187	233	279	325	371
New Hampshire *	320	378	429	479	545
New Jersey *	292	385	443	501	559
New Mexico *	210	258	313	359	391
New York:					
(Suffolk County) * [11]	486	579	676	763	836

TABLE 8.—MAXIMUM AFDC BENEFITS, BY FAMILY SIZE, JANUARY 1985 [1]—Continued

State	2-person family	3-person family	4-person family	5-person family	6-person family
(New York City) *[11]	399	474	566	646	731
North Carolina	194	223	244	267	288
North Dakota* [2]	301	371	454	516	569
Ohio	238	290	360	420	467
Oklahoma* [2]	218	282	349	409	468
Oregon*	328	386	468	550	626
Pennsylvania [12]	285	364	444	524	593
Rhode Island* [13]	388	479	547	615	693
South Carolina*	144	187	229	272	314
South Dakota* [14]	286	329	371	413	455
Tennessee	106	138	168	197	227
Texas	144	167	201	224	258
Utah	289	363	425	484	533
Vermont [15]	467	558	622	704	750
Virginia [16]	272	327	379	451	493
Washington	385	476	561	646	731
West Virginia [3] [17]	164	206	249	275	275
Wisconsin [18]	453	533	636	731	790
Wyoming* [3]	205	265	310	345	405
Guam*	205	265	310	341	371
Puerto Rico [19]	66	90	114	138	162
Virgin Islands	126	171	215	259	304
Median State [20]	272	327	379	451	495

*These States pay 100 percent of the need standard.

[1] Maximum benefit paid for a family of given size with zero countable income. Family members include 1 adult caretaker.

[2] Alaska, Colorado, Maine, Minnesota, Nevada, North Dakota, and Oklahoma also have a children-only schedule.

[3] Arizona, Florida, Montana, West Virginia and Wyoming have two payment schedules, one that includes shelter expenses and one that does not.

[4] Colorado no longer has separate payment schedules for winter months and non-winter months.

[5] Connecticut has three rent regions. Data shown are from rent region A which has the highest rents.

[6] The Hawaii figures include shelter maximums of $215, $240, $265, $290, and $320 for an AFDC family with 2 recipients to 6 recipients, respectively.

[7] Illinois divides itself into 3 distinct areas with regard to payment schedules. Data shown are from the Cook County area, which includes Chicago.

[8] Kansas has a basic standard and a shelter standard. The shelter standard varies from area to area (i.e. from $76 monthly to $135 monthly). The shelter payment in Topeka and some of the other larger cities is $109 monthly. The figures shown include a shelter standard of $135 monthly.

[9] Louisiana has two payment schedules—one for urban areas, from which our data were taken, and one for rural areas.

[10] Michigan has varied shelter maximums. Shown are benefits for Washtenaw County (Ann Arbor) and Wayne County (Detroit).

[11] New York has payment schedules for each social service district. Shown are the Suffolk County and New York City amounts. The figures include energy payments.

[12] Pennsylvania has four regions. The figures in the table are from region 1, which has the highest benefits.

[13] Rhode Island has a winter and non-winter payment schedule. The figures in the table are from the winter schedule which lasts from November through April. The non-winter schedule lasts from May through October.

[14] The South Dakota figures include rent of $120 monthly and utilities equal to $43 monthly.

[15] Vermont has a base amount plus a housing maximum that depends on whether the recipient is living in a furnished or unfurnished apartment inside or outside of Chittenden County. The largest amount paid to a recipient with no other income equals 65.5 percent of the base amount plus 65.5 percent of the housing allowance. The table assumes that the recipient is in an apartment with heat and utilities, for which the rent is $263 (the amount allowed for an apartment with heat and utilities is $263 throughout the State).

[16] Virginia has three payment schedules. The figures shown are from area 3 which has the highest benefits.

[17] West Virginia has three payment schedules. The figures show the higher benefit levels.

[18] Wisconsin has two regions—one for urban areas, from which our data were taken, and one for rural areas.

[19] Puerto Rico pays 50 percent of need plus 50 percent of rent as paid. The figures assume rent at $20 a month. Officials estimate that $20 is the average amount allowed for rent.

[20] Among 50 States and D.C.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of a telephone survey of the States.

Need and payment standards

To receive AFDC payments, a family must pass two income tests: first, a gross income test, and second, a counted ("net") income test. The gross income test is 185 percent of the State's need standard for the relevant family size; and it applies to both applicants and enrollees. This was increased by Congress from 150 percent of the need standard by Public Law 98-369 in 1984. No one with gross income that *exceeds* 185 percent of the need standard can receive AFDC. For applicants, the counted income test is 100 percent of the need standard, and it determines whether the family is deemed to be in "need."

However, to be eligible for an actual payment, the family's counted income also must be below the State's payment standard, which in 31 jurisdictions is below the need standard (see tables 7 and 8).

Further, a $10 minimum payment rule imposed by Public Law 97-35 requires that counted income be at least $10 below the payment standard for an actual payment to be made.

Table 9 presents the change in the AFDC need standard from July 1970 to January 1985, by State. The increase in the median State from July 1970 to July 1975 (a period of 5 years) was 20 percent and from July 1975 to July 1980 it was 12 percent. From July 1980 to January 1985 (a period of 4½ years), the increase was 20 percent. Between July 1970 and January 1985, the Consumer Price Index (CPI) rose an estimated 273 percent.

Many States increased their need standards (but often not actual benefit levels) after passage of the gross income limit in 1981.

TABLE 9.—AFDC NEED STANDARD FOR A FOUR-PERSON FAMILY BY STATE FOR SELECTED YEARS

State	July 1970	July 1975	July 1980	January 1985 [1]	Percent change 1970–85
Alabama	$230	$225	$240	$480	108.7
Alaska	400	400	514	800	100.0
Arizona	256	282	282	282	10.2
Arkansas	176	290	273	273	55.1

TABLE 9.—AFDC NEED STANDARD FOR A FOUR-PERSON FAMILY BY STATE FOR SELECTED YEARS—Continued

State	July 1970	July 1975	July 1980	January 1985[1]	Percent change 1970–85
California	432	389	591	660	52.8
Colorado	235	264	351	510	117.0
Connecticut	330	403	553	636	92.7
Delaware	287	287	312	336	17.1
District of Columbia	280	349	481	798	185.0
Florida	223	230	230	468	109.9
Georgia	208	227	227	432	107.7
Hawaii	263	497	546	546	107.6
Idaho	272	395	421	627	130.5
Illinois	282	317	350	713	152.8
Indiana	322	363	363	363	12.7
Iowa	300	376	419	578	92.7
Kansas	267	353	390	422	58.1
Kentucky	264	235	235	246	−6.8
Louisiana	213	203	494	661	210.3
Maine	349	349	522	641	83.7
Maryland	302	314	326	520	72.2
Massachusetts	314	[1] 368	444	735	134.1
Michigan (Washtenaw County)	NA	NA	[1] 531	693	NA
Michigan (Wayne County)	263	399	501	658	150.2
Minnesota	299	385	486	611	104.3
Mississippi	232	277	252	327	40.9
Missouri	325	370	365	365	12.3
Montana	250	227	331	513	105.2
Nebraska	330	328	370	420	27.3
Nevada	317	329	341	341	7.6
New Hampshire	294	346	392	429	45.9
New Jersey	347	356	414	443	27.7
New Mexico	203	239	267	313	54.2
New York (Suffolk County)	NA	NA	[1] 563	676	NA
New York (New York City)	336	400	476	566	68.5
North Carolina	184	200	210	488	165.2
North Dakota	284	347	408	454	59.9
Ohio	258	431	431	757	193.4
Oklahoma	218	264	349	349	60.1
Oregon	281	452	[2] 441	468	66.5
Pennsylvania	313	349	441	749	139.3
Rhode Island	263	319	389	[3] 547	[4] 67.3

TABLE 9.—AFDC NEED STANDARD FOR A FOUR-PERSON FAMILY BY STATE FOR SELECTED YEARS—Continued

State	July 1970	July 1975	July 1980	January 1985 [1]	Percent change 1970–85
South Carolina	198	217	229	229	15.7
South Dakota	300	329	361	371	23.7
Tennessee	217	217	217	300	38.2
Texas	239	187	187	621	159.8
Utah	271	397	572	802	195.9
Vermont	327	458	753	951	190.8
Virginia	279	346	400	422	51.3
Washington	303	370	536	904	198.3
West Virginia	265	332	332	332	25.3
Wisconsin	255	456	622	749	193.7
Wyoming	277	270	340	310	11.9
Guam	NR	NR	306	310	NA
Puerto Rico	132	132	146	228	72.7
Virgin Islands	NR	166	263	263	NA
Median State [5]	277	346	389	488	76.2

[1] CRS survey data.

[2] Oregon based benefits on the age of the child. The figure shown assumes all children are under 6.

[3] Winter rate (Nov.–Apr.). Summer rate was $440.

[4] Change calculated on basis of summer 1984 rate.

[5] Among 50 States and D.C.

NR = Not reported.

NA = Not available.

Note: Table compiled by the Congressional Research Service (CRS) on the basis of data from the Department of Health and Human Services and, where noted, from CRS itself.

Trends

Table 10 presents information on how the maximum AFDC benefit for a 4-person family with no income has grown from July 1970 to January 1985 by State. In current dollars, the maximum benefit of the median State climbed 17 percent from July 1970–July 1975, 33 percent from July 1975–July 1980, but only 4.6 percent from July 1980–January 1984 (a period of 4½ years).

In constant dollars (after adjustment for inflation), in all but 2 States benefit levels failed to keep pace with inflation. The median decline in benefit levels adjusted for inflation from 1970 to 1985 was 37 percent.

These changes in maximum AFDC benefit levels are summarized in table 11 below. The median State's maximum AFDC benefit (guarantee) for a family of four rose from $221 in fiscal year 1970 to $376 in fiscal year 1984. In constant 1984 dollars, however, the median State's guarantee declined from $601 to $376; a decline of 37 percent.

Most AFDC families are eligible also for food stamps (until 1979 all were). As real AFDC benefits declined in the last dozen years, food stamp benefits rose to offset part of their losses. However, combined AFDC-food stamp benefits for a 4-person family without countable income in the median State dropped from $683 (1983 dollars) in 1971, when food stamps first operated under uniform national rules, to $536 in July 1983. This drop, which amounted to 22 percent, was almost wholly due to shrinkage in AFDC levels. Food stamp maximum benefits were virtually unchanged, since they were adjusted for food price inflation in all years except 1982.

TABLE 10.—AFDC MAXIMUM BENEFIT FOR A 4-PERSON FAMILY, BY STATE, SELECTED YEARS

	July 1970	July 1975	July 1980	January 1984 [1]	January 1985 [1]	Percent change in 1970–85 in constant dollars
Alabama	$81	$135	$148	$147	$147	−33
Alaska	375	400	514	775	800	−22
Arizona	167	197	244	282	282	−38
Arkansas	100	140	188	191	191	−30
California	221	349	563	625	660	10
Colorado	235	264	351	408	420	−35
Connecticut	330	403	553	617	636	−29
Delaware	187	258	312	336	336	−34
District of Columbia	238	297	349	366	399	−39
Florida	134	170	230	273	284	−22
Georgia	133	153	193	238	245	−33
Hawaii	263	497	546	546	546	−24
Idaho	242	344	367	345	344	−48
Illinois	282	317	350	368	368	−52
Indiana	150	250	315	318	316	−23
Iowa	243	356	419	419	419	−37
Kansas	244	353	390	411	422	−36
Kentucky	187	235	235	235	246	−52
Louisiana	109	158	[1] 213	234	234	−21
Maine	168	219	352	430	465	−2
Maryland	196	242	326	355	376	−30
Massachusetts	314	[2] 368	[1] 419	445	463	−46
Michigan	NA	453	[1] 531	516	542	NA
(Detroit)	(263)	(399)	(501)	(488)	(512)	(−29)
Minnesota	299	385	486	583	611	−25
Mississippi	70	60	120	120	120	−37
Missouri	130	150	290	305	308	−13
Montana	228	227	331	425	425	−32
Nebraska	200	245	370	420	420	−23

TABLE 10.—AFDC MAXIMUM BENEFIT FOR A 4-PERSON FAMILY, BY STATE, SELECTED YEARS—Continued

	July 1970	July 1975	July 1980	January 1984 [1]	January 1985 [1]	Percent change in 1970–85 in constant dollars
Nevada	143	230	314	272	279	−29
New Hampshire	294	346	392	389	429	−47
New Jersey	347	356	414	414	443	−53
New Mexico	182	206	267	313	313	−37
New York	NA	[1] 476	[1] 563	676	676	NA
(New York City)	(336)	(400)	(476)	(566)	(566)	(−38)
North Carolina	158	200	210	221	244	−43
North Dakota	261	347	408	437	454	−36
Ohio	200	254	327	343	360	−34
Oklahoma	185	264	349	349	349	−31
Oregon	225	413	[1] [3] 441	445	468	−24
Pennsylvania	313	349	395	415	444	−48
Rhode Island	263	319	389	528	[4] 547	[5] −39
South Carolina	103	117	158	174	229	−19
South Dakota	300	329	361	361	371	−55
Tennessee	129	132	148	154	168	−52
Texas	179	140	140	178	201	−59
Utah	212	306	429	416	425	−27
Vermont	304	367	552	592	622	−25
Virginia	261	311	[1] 305	360	379	−47
Washington	303	370	536	544	561	--32
West Virginia	138	249	249	249	249	−34
Wisconsin	217	403	529	612	636	7
Wyoming	227	250	340	355	310	−50
Guam	NR	NR	307	310	310	NA
Puerto Rico	53	53	63	114	114	−21
Virgin Islands	NR	166	210	263	215	NA
Median State [6]	221	264	350	366	379	−37

[1] CRS survey data.
[2] Includes quarterly grant pro-rated monthly, (CRS survey).
[3] Oregon-based benefits on age of child. The figure assumes all children are under 6.
[4] Winter rate (Nov.–April). Summer rate was $440.
[5] Change calculated on basis of summer 1984 rate.
[6] Among 50 States and D.C.

NR = Not reported.
NA = Not available.

Note: Table compiled by the Congressional Research Service (CRS) on the basis of data from the Department of Health and Human Services and, where noted, from CRS itself. The last column of the table was computed using the CPI–U Consumer Price Index. A projection of 318.3 was assumed for January 1985.

TABLE 11.—HISTORICAL TRENDS IN AVERAGE PAYMENT PER RECIPIENT AND PER FAMILY; AND MAXIMUM AND MEDIAN BENEFITS FOR A FAMILY OF FOUR; FOR SELECTED YEARS FROM 1970 TO 1984[1]

	1970	1975	1980	1982	1983	1984
AFDC payments:						
Average monthly benefit per family....	179	202	269	300	310	321
Average monthly benefit per person...	46	61	93	103	106	110
Median State benefit in July for a family unit of 4 with no income....	221	264	350	376	368	376
Median State benefit in July in constant 1984 dollars [1].......................	590	507	441	402	383	376
Maximum State benefit in July for a family unit of 4 with no income....	375	497	563	660	625	660
Maximum State benefit in July in constant 1984 dollars [1]	1,001	954	709	706	650	660

[1] The constant dollar numbers were calculated using the CPI-U monthly Consumer Price Index series.

Source: Office of Research and Statistics, Social Security Administration and the Congressional Research Service.

FINANCING

The Federal Government pays at least 50 percent of each State's benefit payments and more than 70 percent in eleven States. Federal matching for AFDC varies from State to State, depending, within limits, on per capita income. Under matching formulas in the law, about 55 percent of each AFDC benefit dollar is paid by the Federal Government and 45 percent is paid by the States, some of which require local governments to share costs. The Federal share varies among States, ranging from 50 percent to 77.63 percent, and it is inversely related to State per capita income. The Federal Government pays 50 percent of administrative costs in all States.

The Federal share of a State's AFDC payments is determined by the matching formula specified for medicaid in title XIX of the Social Security Act. (States may choose an alternate formula, specified for AFDC only in title IV of the act, but in early fiscal year 1985 none did so. Unlike the medicaid formula, this "regular" AFDC formula places a ceiling on average benefits eligible for Federal funds.)

The medicaid cost-sharing formula used to determine the State and Federal shares of AFDC benefit payments is as follows:

State share = State per capita income squared/national per capita income squared × 45 percent

Federal share = 100 percent—State share (with a minimum of 50 percent and a maximum of 83 percent)

For the outlying areas, Guam, Puerto Rico, and the Virgin Islands, 75 percent Federal matching is provided for AFDC benefits, but the law imposes a ceiling on Federal funds.

The Federal share of benefits is shown in table 12.

TABLE 12.—FEDERAL SHARE OF THE AFDC PROGRAM,[1] FISCAL YEARS 1978 THROUGH 1987

[In percent]

State	1978–79 [2]	1980–81 [3]	1982–83 [4]	1984–85 [5]	1986–87 [6]
Alabama	72.58	71.32	71.13	72.14	72.30
Alaska	50.00	50.00	50.00	50.00	50.00
Arizona (37.9 in fiscal year 1980)			59.87	61.21	62.28
Arkansas	72.06	72.87	72.16	73.65	73.83
California	50.00	50.00	50.00	50.00	50.00
Colorado	53.71	53.16	52.28	50.00	50.00
Connecticut	50.00	50.00	50.00	50.00	50.00
Delaware	50.00	50.00	50.00	50.00	50.00
District of Columbia	50.00	50.00	50.00	50.00	50.00
Florida	56.55	58.94	57.92	58.41	56.16
Georgia	65.82	66.76	66.28	67.43	66.05
Guam (Federal funds limited)	[7] 50.00	[8] 75.00	75.00	75.00	75.00
Hawaii	50.00	50.00	50.00	50.00	51.00
Idaho	63.58	65.70	65.43	67.28	69.36
Illinois	50.00	50.00	50.00	50.00	50.00
Indiana	57.86	57.28	56.73	59.93	62.82
Iowa	51.96	56.57	55.35	55.24	58.90
Kansas	52.35	53.52	52.50	50.67	50.00
Kentucky	69.71	68.07	67.95	70.72	70.23
Louisiana	70.45	68.82	66.85	64.65	63.81
Maine	69.74	69.53	70.63	70.63	68.86
Maryland	50.00	50.00	50.00	50.00	50.00
Massachusetts	51.62	51.75	53.56	50.13	50.00
Michigan	50.00	50.00	50.00	50.70	56.79
Minnesota	55.26	55.64	54.39	52.67	53.41
Mississippi	78.09	77.55	77.36	77.63	78.42
Missouri	60.66	60.36	60.38	61.40	60.62
Montana	61.10	64.28	65.34	64.41	66.38
Nebraska	53.46	57.62	58.12	57.13	57.11
Nevada	50.00	50.00	50.00	50.00	50.00
New Hampshire	62.85	61.11	59.41	59.45	54.92
New Jersey	50.00	50.00	50.00	50.00	50.00
New Mexico	71.84	69.03	67.19	69.39	68.94
New York	50.00	50.00	50.88	50.00	50.00
North Carolina	67.81	67.64	67.81	69.54	69.18
North Dakota	50.71	61.44	62.11	61.32	55.12
Ohio	55.46	55.10	55.10	55.44	58.30
Oklahoma	65.42	63.64	59.91	58.47	57.60

TABLE 12.—FEDERAL SHARE OF THE AFDC PROGRAM,[1] FISCAL YEARS 1978 THROUGH 1987—Continued

[In percent]

State	1978-79[2]	1980-81[3]	1982-83[4]	1984-85[5]	1986-87[6]
Oregon	57.29	55.66	52.81	57.12	61.54
Pennsylvania	55.11	55.14	56.78	56.04	56.72
Puerto Rico (Federal funds limited)	[7] 50.00	[8] 75.00	75.00	75.00	75.00
Rhode Island	57.00	57.81	57.77	58.17	56.33
South Carolina	71.93	70.97	70.77	73.51	72.70
South Dakota	63.80	68.78	68.19	68.31	67.82
Tennessee	68.88	69.43	68.53	70.66	70.20
Texas (67.2 in fiscal year 1980)				54.37	53.56
Utah	68.98	68.07	68.64	70.84	72.62
Vermont	68.02	68.40	68.59	69.37	50.00
Virgin Islands (Federal funds limited)	[7] 50.00	[8] 75.00	75.00	75.00	75.00
Virginia	57.01	56.54	56.74	56.53	53.14
Washington	51.64	50.00	50.00	50.00	50.06
West Virginia	70.16	67.35	67.95	70.57	71.53
Wisconsin	58.53	57.95	58.02	56.87	57.54
Wyoming	53.44	50.00	50.00	50.00	50.00

[1] The Federal share of the AFDC program is calculated by the same formula used to determine the Federal share of medicaid costs except in States that elect an alternate formula or have no medicaid program. Texas chose the alternate formula until July 1, 1983. Arizona used the alternate formula until the first quarter of fiscal year 1983, when it was deemed qualified to use the medicaid formula for the first time. The Federal medicaid matching rates are 60.81 and 61.47 for Arizona for fiscal years 1978–79 and 1980–81. For Texas they are 60.66, 58.35, and 55.75, for fiscal years 1978–79, 1980–81, and 1982–83, respectively.

[2] Effective Oct. 1, 1977, through Sept. 30, 1979.

[3] Effective Oct. 1, 1979, through Sept. 30, 1981.

[4] Effective Oct. 1, 1981, through Sept. 30, 1983.

[5] Effective Oct. 1, 1983, through Sept. 30, 1985.

[6] Effective Oct. 1, 1985 through Sept. 30, 1987.

[7] Public Law 95–600 changed the Federal share for fiscal year 1979 from 50 to 75 percent.

[8] Public Law 96–272 made permanent the 75-percent matching rate for AFDC effective Oct. 1, 1979. For medicaid the matching rate remains 50 percent.

Source: Department of Health and Human Services.

FEDERAL AND STATE EXPENDITURES

In fiscal year 1984 AFDC benefits totaled $14.4 billion. Of total fiscal year 1984 benefits, $7.7 billion or 54 percent was paid by the Federal Government. Tables 13 and 14 present State and Federal expenditures for selected years.

At the start of fiscal year 1984, 10 States required their localities to pay some portion of benefit costs. These States were:

California, Colorado, Indiana, Minnesota, Montana, New Jersey, New York, North Carolina, North Dakota, and Ohio.

Table 13 presents historical data on the amount of total Federal and State AFDC benefit payments to single-parent families (including two-parent families where one adult is incapacitated), unemployed parent families, and under the emergency assistance program. Benefit payments under current law are projected to be $14.7 billion in fiscal year 1985 and $16.3 billion by fiscal year 1990.

Table 14 presents Federal and State expenditures for AFDC in selected years. Administrative costs have risen much faster than total benefits since 1971. Administrative costs equaled 9.6 percent of 1971 benefits and 12.4 percent of 1985 benefits.

Table 15 gives State-by-State fiscal year 1984 data on average monthly caseloads, benefit payments, State-local administrative costs, and administrative costs per family. Administrative costs ranged from $149 per family in Mississippi to $1,041 in Oklahoma.

TABLE 13.—FEDERAL AND STATE AFDC BENEFIT PAYMENTS UNDER THE SINGLE PARENT, UNEMPLOYED PARENT, AND EMERGENCY ASSISTANCE PROGRAMS: FISCAL YEARS 1970 TO 1990

[In millions of dollars]

Fiscal year	Single parent [1] (1)	Unemployed parent (2)	Emergency assistance (3)	Total, columns 1, 2, and 3 [2] (4)	Child support collections (5)	Total, columns 4 minus 5 [3] (6)	Column 6 expressed in 1985 constant dollars [4] (7)
1970	3,851	231	14	4,095	0	4,095	11,580
1971	4,993	412	22	5,427	0	5,427	14,587
1972	5,972	422	43	6,436	0	6,436	16,740
1973	6,459	414	38	6,912	0	6,912	17,369
1974	6,881	324	44	7,249	0	7,249	16,697
1975	7,791	362	70	8,223	0	8,223	16,910
1976	8,825	525	66	9,415	286	9,129	17,421
1977	9,420	617	70	10,107	423	9,684	17,344
1978	9,624	565	76	10,264	472	9,792	16,452
1979	9,865	522	81	10,468	597	9,871	15,039
1980	10,847	693	109	11,650	603	11,047	14,674
1981	11,769	1,075	127	12,971	671	12,300	14,815
1982	11,601	1,256	95	12,951	786	12,165	13,734
1983	12,136	1,471	121	13,727	880	12,847	13,977
1984	12,759	1,612	132	14,502	1,000	13,502	14,041
1985 [5]	13,065	1,499	137	14,701	1,046	13,476	13,476
1986 [5]	13,437	1,489	140	15,066	1,153	NA	NA
1987 [5]	13,806	1,505	143	15,454	1,266	NA	NA
1988 [5]	14,162	1,496	146	15,804	1,351	NA	NA
1989 [5]	14,517	1,497	149	16,163	1,438	NA	NA

TABLE 13.—FEDERAL AND STATE AFDC BENEFIT PAYMENTS UNDER THE SINGLE PARENT, UNEMPLOYED PARENT, AND EMERGENCY ASSISTANCE PROGRAMS: FISCAL YEARS 1970 TO 1990—Continued

[In millions of dollars]

Fiscal year	Single parent [1] (1)	Unemployed parent (2)	Emergency assistance (3)	Total, columns 1, 2, and 3 [2] (4)	Child support collections (5)	Total, columns 4 minus 5 [3] (6)	Column 6 expressed in 1985 constant dollars [4] (7)
1990 [5]	14,663	1,483	152	16,298	1,524	NA	NA

[1] Includes payments to two-parent families where one adult is incapacitated.

[2] Total AFDC benefits of which a portion are reimbursed by child support collections. Total may not add due to rounding.

[3] Net AFDC benefits—Gross benefits less those reimbursed by child support collections.

[4] Net AFDC benefits in constant 1985 dollars.

[5] Administration projections under current law. Collection of all quality control sanctions is assumed.

NA—Not available.

Source: Data provided by the Office of Family Assistance and Office of Family Resources, Social Security Administration (January 1985).

TABLE 14.—TOTAL, FEDERAL, AND STATE EXPENDITURES: FISCAL YEARS 1970 TO 1990

[In millions of dollars]

Fiscal year	Federal share		State share		Total	
	Benefits	Administrative	Benefits	Administrative	Benefits	Administrative
1970	2,187	[1] 572	1,443	186	4,082	[1] 881
1971	3,008	271	2,469	254	5,477	525
1972	3,612	[2] 240	2,942	241	6,554	NA
1973	3,865	313	3,138	296	7,003	610
1974	4,071	379	3,300	362	7,371	740
1975	4,625	552	3,787	529	8,412	1,082
1976	5,258	541	4,418	527	9,676	1,069
1977	5,626	595	4,762	583	10,388	1,177
1978	5,701	631	4,890	617	10,591	1,248
1979	5,825	683	4,954	668	10,779	1,350
1980	6,448	750	5,508	729	11,956	1,479
1981	6,928	835	5,917	814	12,845	1,648
1982	6,922	878	5,934	878	12,857	1,756
1983	7,332	915	6,275	915	13,607	1,830
1984	7,707	876	6,664	822	14,371	1,698
1985 [3]	7,823	923	6,741	885	14,564	1,809
1986 [3]	8,111	977	6,815	926	14,926	1,903
1987 [3]	8,320	1,016	6,991	965	15,311	1,982

TABLE 14.—TOTAL, FEDERAL, AND STATE EXPENDITURES: FISCAL YEARS 1970 TO 1990—Continued

[In millions of dollars]

Fiscal year	Federal share		State share		Total	
	Benefits	Administrative	Benefits	Administrative	Benefits	Administrative
1988 [3]	8,509	1,039	7,149	1,001	16,658	2,039
1989 [3]	8,702	1,065	7,312	1,035	16,014	2,100
1990 [3]	8,774	1,096	7,371	1,067	16,145	2,163

[1] Includes expenditures for services.

[2] Administrative expenditures only.

[3] Administration projection under current law. Collection of all quality control sanctions is assumed.

Note.—Benefits do not include emergency assistance payments. Foster care payments are included from 1971 to 1980. Data for 1984 to 1986 are projections under current law. Beginning in fiscal year 1984, the costs of certifying AFDC households for food stamps are shown in the food stamp appropriation, U.S. Department of Agriculture.

NA—not available.

Source: Data provided by the Office of Family Assistance and Office of Financial Resources, Social Security Administration (January 1985).

TABLE 15.—AVERAGE MONTHLY NUMBER OF AFDC FAMILIES, TOTAL BENEFIT PAYMENTS, TOTAL ADMINISTRATIVE COSTS, AND ADMINISTRATIVE COST PER AFDC FAMILY BY STATE, FISCAL YEAR 1984

State	Average monthly number of AFDC families (thousands)	Total benefit payments [1] (thousands)	Total administrative costs (thousands)	Administrative cost per AFDC family
Alabama	55.0	$72,962	$16,310	$297
Alaska	5.8	37,341	4,925	855
Arizona	26.1	66,753	6,681	256
Arkansas	22.4	39,043	8,252	368
California	546.9	3,172,693	286,777	524
Colorado	30.0	107,259	14,656	488
Connecticut	43.6	223,887	17,238	395
Delaware	9.4	27,525	4,017	427
District of Columbia	22.9	74,602	19,169	837
Florida	103.2	248,704	44,135	427
Georgia	89.1	198,514	34,961	392
Hawaii	17.1	82,804	7,233	422
Idaho	6.7	20,585	5,810	869
Illinois	243.6	843,706	80,928	332
Indiana	57.9	152,322	22,456	388
Iowa	39.6	158,946	13,664	345
Kansas	24.0	86,753	7,577	316

TABLE 15.—AVERAGE MONTHLY NUMBER OF AFDC FAMILIES, TOTAL BENEFIT PAYMENTS, TOTAL ADMINISTRATIVE COSTS, AND ADMINISTRATIVE COST PER AFDC FAMILY BY STATE, FISCAL YEAR 1984—Continued

State	Average monthly number of AFDC families (thousands)	Total benefit payments[1] (thousands)	Total administrative costs (thousands)	Administrative cost per AFDC family
Kentucky	60.5	134,518	15,180	251
Louisiana	71.8	144,750	27,418	382
Maine	17.9	69,145	4,618	258
Maryland	70.8	229,103	21,302	301
Massachusetts	87.8	405,680	50,323	573
Michigan	240.3	1,213,561	102,225	425
Minnesota	50.3	286,748	20,565	409
Mississippi	52.9	57,545	7,906	149
Missouri	68.0	195,452	20,938	308
Montana	7.2	27,371	3,347	463
Nebraska	14.9	56,317	5,455	367
Nevada	4.6	10,169	3,036	663
New Hampshire	6.1	21,671	3,269	533
New Jersey	129.0	490,894	71,472	554
New Mexico	18.4	48,884	11,469	624
New York	371.7	1,904,862	270,677	728
North Carolina	67.5	148,094	26,030	385
North Dakota	4.2	14,849	2,232	533
Ohio	225.9	724,806	64,447	285
Oklahoma	27.3	84,485	28,412	1,041
Oregon	27.2	100,936	16,510	607
Pennsylvania	191.7	723,829	97,739	510
Rhode Island	15.8	69,974	5,847	369
South Carolina	46.6	74,650	11,039	237
South Dakota	5.8	17,201	2,975	511
Tennessee	58.8	82,566	13,348	227
Texas	113.9	188,425	43,901	385
Utah	13.0	50,479	5,029	387
Vermont	8.1	39,872	3,282	403
Virginia	59.1	164,962	34,847	589
Washington	59.0	294,062	44,230	749
West Virginia	32.2	75,037	7,789	242
Wisconsin	92.7	520,955	15,655	169
Wyoming	3.3	12,139	1,809	541
Guam	1.7	4,771	764	463
Puerto Rico	54.8	64,334	11,696	213

TABLE 15.—AVERAGE MONTHLY NUMBER OF AFDC FAMILIES, TOTAL BENEFIT PAYMENTS, TOTAL ADMINISTRATIVE COSTS, AND ADMINISTRATIVE COST PER AFDC FAMILY BY STATE, FISCAL YEAR 1984—Continued

State	Average monthly number of AFDC families (thousands)	Total benefit payments[1] (thousands)	Total administrative costs (thousands)	Administrative cost per AFDC family
Virgin Islands	1.4	3,147	431	319
U.S. total	3,725.7	14,370,642	1,672,000	449

[1] Excludes foster care payments.

Source: Office of Family Assistance; Social Security Administration.

THE 1984 CASELOAD AND RECENT TRENDS

Tables 16, 17, and 6 present caseload and benefit data for September 1984. The share of persons receiving AFDC due to unemployment of the principal earner (AFDC-UP) was 10.2 percent. This compares with a 5.6 percent share for such recipients in 1971.

Average benefits per AFDC family (2.9 persons) were $321 in fiscal year 1984, compared with $322 a year earlier. Average benefits per AFDC-UP family (4.2 persons) were $479, compared with $463 a year earlier.

TABLE 16.—FISCAL YEAR 1984 CASELOAD AND ASSISTANCE PAYMENTS

[Preliminary data]

State	Total assistance payments (thousands)	Average monthly caseload (thousands)	Average monthly recipients (thousands)	Average payment per	
				Family	Person
Alabama	$72,962	55.0	154.1	$111	$39
Alaska	37,341	5.8	14.4	540	216
Arizona	66,753	26.1	72.3	214	77
Arkansas	39,043	22.4	63.3	145	51
California	3,172,693	546.9	1,602.8	483	165
Colorado	107,259	30.0	87.3	298	102
Connecticut	223,887	43.6	126.7	428	147
Delaware	27,525	9.4	25.3	244	91
District of Columbia	74,602	22.9	59.7	271	104
Florida	248,704	103.2	281.3	201	74
Georgia	198,514	89.1	243.0	186	68
Hawaii	82,804	17.1	53.1	403	130
Idaho	20,585	6.7	18.3	257	94
Illinois	843,706	243.6	743.4	289	95

TABLE 16.—FISCAL YEAR 1984 CASELOAD AND ASSISTANCE PAYMENTS—Continued

[Preliminary data]

State	Total assistance payments (thousands)	Average monthly caseload (thousands)	Average monthly recipients (thousands)	Average payment per	
				Family	Person
Indiana	152,322	57.9	165.9	219	77
Iowa	158,946	39.6	115.8	334	114
Kansas	86,753	24.0	70.8	301	102
Kentucky	134,518	60.5	159.3	185	70
Louisiana	144,750	71.8	217.0	168	56
Maine	69,145	17.9	50.9	321	113
Maryland	229,103	70.8	192.6	270	99
Massachusetts	405,680	87.8	244.5	385	138
Michigan	1,213,561	240.3	743.7	421	136
Minnesota	286,748	50.3	146.7	475	163
Mississippi	57,545	52.9	154.9	91	31
Missouri	195,452	68.0	197.0	240	83
Montana	27,371	7.2	20.0	315	114
Nebraska	56,317	14.9	42.5	316	110
Nevada	10,169	4.6	12.7	185	67
New Hampshire	21,671	6.1	16.3	294	111
New Jersey	490,894	129.0	382.1	317	107
New Mexico	48,884	18.4	50.7	222	80
New York	1,904,862	371.7	1,119.2	427	142
North Carolina	148,094	67.5	166.6	183	74
North Dakota	14,849	4.2	11.5	296	108
Ohio	724,806	225.9	680.2	267	89
Oklahoma	84,485	27.3	78.8	258	89
Oregon	100,936	27.2	71.6	309	117
Pennsylvania	723,829	191.7	576.4	315	105
Rhode Island	69,974	15.8	44.4	368	131
South Carolina	74,650	46.6	125.8	133	49
South Dakota	17,201	5.8	16.3	246	88
Tennessee	82,566	58.8	153.5	117	45
Texas	188,425	113.9	339.2	138	46
Utah	50,479	13.0	37.9	324	111
Vermont	39,872	8.1	23.6	409	141
Virginia	164,962	59.1	155.7	233	88
Washington	294,062	59.0	161.2	415	152
West Virginia	75,037	32.2	97.9	194	64
Wisconsin	520,955	92.7	281.8	468	154
Wyoming	12,139	3.3	8.7	303	116

TABLE 16.—FISCAL YEAR 1984 CASELOAD AND ASSISTANCE PAYMENTS—Continued

[Preliminary data]

State	Total assistance payments (thousands)	Average monthly caseload (thousands)	Average monthly recipients (thousands)	Average payment per	
				Family	Person
Guam	4,771	1.7	6.0	241	66
Puerto Rico	64,334	54.8	178.9	98	30
Virgin Islands	3,147	1.4	3.9	194	68
U.S. total	14,370,642	3,725.7	10,867.8	321	110

Source: Office of Family Assistance; Social Security Administration.

Table 17 presents the average monthly number of families and individuals receiving AFDC benefits since 1970. In fiscal year 1984 AFDC family enrollment was 3.7 million. This includes 10.9 million recipients of whom approximately 66 percent were children. Of these AFDC families 288,000 were two-parent families eligible because of an unemployed parent.

TABLE 17.—HISTORICAL TRENDS IN AFDC ENROLLMENTS AND AVERAGE PAYMENTS

Fiscal year	Average monthly number of (in thousands)					Average monthly benefit	
	Families [1]	Recipients [1]	Children [1]	Unemployed parent families	Unemployed parent recipients	Family	Recipient
1970	1,909	7,429	5,494	78	420	$178	$46
1971	2,532	9,556	6,963	143	726	180	48
1972	2,918	10,632	7,698	134	639	187	51
1973	3,123	11,038	7,965	120	557	187	53
1974	3,170	10,845	7,824	95	434	194	57
1975	3,342	11,066	7,928	101	451	210	63
1976	3,561	11,339	8,156	135	593	227	71
1977	3,575	11,108	7,818	149	659	242	78
1978	3,528	10,663	7,475	127	567	250	83
1979	3,493	10,311	7,193	114	504	257	87
1980	3,642	10,597	7,320	141	612	274	94
1981	3,871	11,160	7,615	209	881	277	96
1982	3,569	10,431	6,975	232	976	300	103
1983	3,651	10,659	7,051	272	1,144	311	106
1984	3,726	10,868	7,155	288	1,224	321	110
1985 [2]	3,710	10,753	NA	262	1,093	327	113
1986 [2]	3,734	10,797	NA	255	1,063	333	115
1987 [2]	3,756	10,841	NA	252	1,050	340	118
1988 [2]	3,772	10,877	NA	246	1,024	346	120
1989 [2]	3,792	10,926	NA	242	1,005	352	122

TABLE 17.—HISTORICAL TRENDS IN AFDC ENROLLMENTS AND AVERAGE PAYMENTS—Continued

Fiscal year	Average monthly number of (in thousands)					Average monthly benefit	
	Families [1]	Recipients [1]	Children [1]	Unemployed parent families	Unemployed parent recipients	Family	Recipient
1990 [2]	3,763	10,839	NA	236	979	358	124

[1] Includes unemployed parent families and, for 1971–81, foster care children.

[2] Projection under current law.

Source: Office of Family Assistance and Office of Family Resources, Social Security Administration.

The number of AFDC *families* rose more than 50 percent from 1971 to 1981, reaching a high of 3.9 million (monthly average) in 1981. In 1982, after OBRA took effect, the number dropped 8 percent, but in 1983 it rose 2.5 percent, and in 1984, the number of families rose 2 percent.

The number of AFDC *recipients* tells a different story and reflects shrinking family size. Recipient numbers reached a high in 1976, when they averaged 11.3 million, up 16 percent from the 1971 count. Enrollment in fiscal year 1981 totaled 11.2 million. Recipient numbers fell 7 percent in 1982, but rose 2 percent in both 1983 and 1984.

The number of one-parent AFDC families fell significantly in 1982, and then turned upward. However, the number of two-parent families (those aided because of the unemployment of a parent) began a steep climb in 1980 that lifted 1984 numbers to a record peak.

CHARACTERISTICS OF AFDC FAMILIES

This section describes the characteristics of AFDC families, using two main sources of data. For years through 1979, the sources were individual surveys of similar design specially conducted to gather information from agency case files. For 1982 and later years, data were derived from information obtained in the quality control case samples.

As noted before, Congress in 1981 changed AFDC rules significantly. The new rules primarily affected families with earnings and children living with their stepparents. For most such families, benefits were ended or reduced. In 1984, Congress again revised the AFDC program, restoring eligibility to some of the families affected by the 1981 changes.

Table 18 shows that the share of AFDC families with earnings fell more than 50 percent from March 1979 to March 1983, from 12.8 percent to 6.0 percent. The share of families with no reported income other than AFDC climbed from 80.6 percent to 87.5 percent in 1982, dropping slightly in 1983. Moreover (table 21), the average amount of support contributed by stepparents (and in 1982 and thereafter deemed from them) more than doubled, from $63 per family in March 1979 to $159 in May 1982. Data for 1983 were not available.

Table 18 also shows the trend in selected characteristics of AFDC families from 1969 to 1983. During this period, the average family size decreased from 4.0 persons to 2.9; the percent of families with no other income than AFDC rose more than 50 percent; and the share of AFDC households with nonrecipient members climbed.

TABLE 18.—AFDC CHARACTERISTICS, 1969–83

	May 1969	January 1973	May 1975	March 1977	March 1979	March 1983 [8]
Average family size (persons)	4.0	3.6	3.2	3.1	3.0	2.9
Incidence of parent (percent):						
Absent	[1] 77.1	[2] 80.5	[2] 83.3	[2] 84.7	[2] 86.9	88.4
Not married to the mother	[1] 27.9	[2] 31.5	[2] 31.0	[2] 33.8	[2] 37.8	47.4
Incidence of working mothers (percent):						
With full-time jobs	8.2	9.8	10.4	8.4	8.7	1.6
With part-time jobs	6.3	6.3	5.7	5.3	5.4	3.7
Actively seeking work, or in school or training	10.0	11.5	12.2	13.8	12.8	2.2
Percent of families:						
With earnings	[3] NA	16.3	14.6	12.9	12.8	[9] 6.0
With no reported income other than AFDC	56.0	66.9	71.1	[4] 78.2	[4] 80.6	86.2
Median number of months on AFDC [5]	23.0	27.4	31.0	26.3	29.3	25.0
Race (percent): [6]						
White, other than Hispanic	NA	38.0	39.9	41.4	40.4	41.7
Black	45.2	45.8	44.3	43.0	43.1	43.9
Hispanic	NA	13.4	12.2	12.2	13.6	11.7
American Indian	1.3	1.1	1.1	1.1	1.4	1.0
Asian			.5	.4	1.0	1.4
Other and unknown	4.8	1.7	2.0	1.9	.4	.4
Incidence of households (percent):						
Living in public housing	[7] 12.8	13.6	14.6	14.9	NA	10.4
Participating in food stamp or donated food program	52.9	68.4	75.1	74.0	75.1	NA
Including nonrecipient members	33.1	34.9	34.8	NA	NA	44.0

[1] Calculated on the basis of total number of families.

[2] Calculated on the basis of total number of children; on the basis of total number of families, the January 1973 percentages would be 83 for absent fathers and 34.7 for unmarried-to-mother fathers.

[3] 13.7 percent of mothers had earnings in 1969 survey month, compared with 14.4 percent in 1973, 13.7 percent in 1975, and 12.3 percent in 1977.

[4] State collected child support directly beginning in 1975, removing one source of non-AFDC income.

[5] Since most recent enrollment.

[6] Excludes Puerto Rico and the Virgin Islands for 1969. The comparability between the March 1983 data and the earlier data is weak. In March 1983, 12.8 percentage points where race is unknown was allocated proportionately across all categories.

[7] As of 1971. Item not available for 1969.

[8] Data are for October 1982—March 1983 all percentages are based on an average monthly caseload of 3,543,000. Hawaii and the territories are not included.

[9] Does not include Texas.

NA—Not available.

*Note.—There is a special problem in matching current recipient characteristics data for March 1983 with those of previous years because the data sources differ. The sources of characteristics data through 1979 were individual surveys of similar design specially conducted to gather recipient characteristics from agency case files. In contrast, the current data were derived from the information available from the quality control case sample.

Source: Congressional Research Service based on AFDC recipient characteristic studies, conducted by the Department of Health and Human Services for 1969–1979 data and the Office of Family Assistance, HHS for 1983 data.

Among the 1984 changes made by Congress is the provision which for the first time establishes a standard definition of the AFDC assistance unit. Under this new policy, the parent(s) in the home and all minor related children must be included in the AFDC unit except SSI recipients. According to the May 1982 quality control data, 46 percent (1.531 million cases) of the total AFDC caseload lives with others who are not part of the AFDC unit. Some of these families were affected by the standard filing unit provision enacted in 1984. The 1982 quality control data also show that:

—Most of the mothers who had been excluded from the AFDC unit but were collecting AFDC for their children were 21 years of age or older (79 percent). Only 16 percent of the mothers who had excluded themselves from the AFDC unit were under the age of 20.

—Most of the mothers who were living with their children but excluded from the AFDC unit were living with other relatives. These relatives could be grandparents, siblings, or other relatives of the AFDC children. Only 6 percent of the mothers were living with nonrelatives.

—The 212,000 cases where the mother was in the home but excluded from the AFDC unit were distributed as follows: (1) in 5 percent of the cases another adult was included in the AFDC unit; (2) in 93 percent of the cases, only children formed the AFDC unit. These children lived with other adults (64,000 cases), other adults and children (37,000 cases), stepparents (36,000), or adults who were receiving SSI (62,000 cases).

—In 1.038 million cases the mother was included in the AFDC unit but the family was living with other people. These cases are distributed as follows: (1) in 516,000 cases the persons outside the AFDC unit were adults; (2) in 254,000 cases adults and children were in the household but not in the assistance unit; (3) in 142,000 cases children were the only other persons in the household who were not receiving AFDC; (4) in 85,000 cases the adults and children who had been excluded from the AFDC unit were receiving SSI; and (5) in 42,000 cases, the persons outside the AFDC unit were stepparents.

—The cases in which only children had been excluded from the unit or in which a parent and child(ren) had been excluded were far more likely to be located in the South. For example, 44.6 percent of the cases adding a child to the unit were in the South but only 26.2 percent of the total caseload lived in the South.

Table 19 indicates that the share of AFDC families with no more than two children rose from 70.4 percent in 1979 to 74.1 percent in 1982 and then declined to 71 percent in 1983. The share of AFDC families with a mother (or other caretaker relative) younger than 19 declined from 3.8 percent to 3.3 percent during these 4 years and the percentage of families reporting no father in the home rose from 84.7 percent to 91.8 percent.

TABLE 19.—CHARACTERISTICS OF FAMILIES ENROLLED IN AFDC, MARCH 1979, MAY 1982, AND MARCH 1983 [1]

	Total caseload		
	March 1979 [2]	May 1982 [3]	March 1983 [4]
Average payment per case	$251	$299	$309
Number of child recipients (percent): [5]			
1	42.3	43.4	42.3
2	28.1	30.7	28.7
3	15.6	15.2	14.8
4	7.9	6.0	6.1
5	3.5	2.0	2.3
6 or more	2.5	1.6	1.5
Unknown or no children	NA	NA	4.2
Number of adult recipients (percent):			
0	(6)	12.4	8.8
1	(6)	80.5	79.9
2 or more	(6)	7.2	11.3
Age of mother (or other caretaker relative) (percent):			
18 or under	3.8	3.2	3.3
19 to 24	25.7	25.6	26.2
25 to 29	19.6	20.1	21.2
30 to 39	24.9	25.5	25.4
40 to 49	10.5	9.8	9.8
50 or over	3.6	3.5	4.6
Unknown	3.7	(*)	9.6
No mother (or other caretaker relative) in assistance unit	8.3	12.2	NA
Age of youngest child (percent):			
0 to 2	(7)	35.3	38.3
3 to 5	(7)	23.9	22.2
6 to 17	(7)	40.1	38.9
18 to 20	(7)	0.7	0.4
Unknown or missing	NA	NA	0.2
Father's relationship to youngest child (percent):			
No father	84.7	90.6	91.8
Natural father	9.6	NA	NA
Adoptive father	0.0	NA	NA
Stepfather	5.6	NA	NA
Mean length of time on AFDC (months)	44.7	NA	NA

---

[1] See note on table 18 about difference in data sources for 1979 and 1982.

[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.

[3] Source: Office of Family Assistance, Social Security Administration.

[4] Data are for October 1982-March 1983 and do not include Hawaii and the territories. Source: Office of Family Assistance, Social Security Administration.

[5] All percentages relate to families (AFDC cases).

[6] 1979 data tabulation related to percent of families with specified number of adult nonrecipients: 0, 67.2 percent; 1, 16.1; and 2 more, 16.7.

[7] Age brackets were different in 1979 study: Unborn, 0.5 percent of families; 0–3 years, 42.2; 4–6, 19.2; 7–18, 36.8; 19–20, 0.5; unknown, 0.8.

*Less than 0.5 percent.

NA—Not available.

Percentages may not equal to 100 percent due to rounding.

Table 20 presents data about the employment status of the AFDC mother (or other caretaker relative), information about her status with the work incentive program (WIN), and data about tenure on AFDC.

The table indicates that the share of mothers (or other caretaker relatives) working full time declined from 8 percent in 1979 to 1.6 percent in 1983; the share working part-time fell from 5.0 percent to 3.7 percent in the same period.

The table also indicates that the share of families who received benefits for more than 5 years (since the most recent opening of their case) declined from 26.9 percent in 1979 to 23.8 percent in 1983.

TABLE 20.—EMPLOYMENT AND WIN STATUS OF AFDC MOTHERS, TENURE OF AFDC FAMILIES, MARCH 1979, MAY 1982, AND MARCH 1983 [1]

	Percent of total caseload		
	March 1979 [2]	May 1983 [3]	March 1983 [4]
WIN status of mother (or other caretaker):			
No mother or (caretaker) mother not receiving payment	18.0	12.2	NA
Mandatory registrant	20.6	25.9	27.6
Voluntary registrant	4.1	1.6	1.7
Ill or incapacitated	4.1	3.0	3.7
Child or other care	43.1	40.6	43.1
No WIN project	7.2	10.5	NA
Other	2.9	6.2	9.4
Unknown	NA	NA	12.7
Employment status of mother (or caretaker):			
No mother (caretaker)	8.3	12.2	NA
Full-time work, 35 or more hours per week	8.0	1.3	[5] 1.6
Part-time work, fewer than 35 hours per week	5.0	4.3	[5] 3.7
Incapacitated	6.0	NA	4.1
At school	2.6	NA	2.2
On layoff	0.5	NA	0.8
Seeking work	9.1	NA	NA
Other—needed at home or not actively seeking work	60.5	82.2	72.1
Number of months on AFDC since most recent opening:			
1 to 6 months	16.4	20.0	19.7
7 to 12 months	12.5	12.4	12.2
13 to 24 months	16.7	16.2	16.7
25 to 36 months	11.4	12.6	12.3
37 to 60 months	15.3	14.2	14.9
61 plus months	26.9	23.5	23.8
Unknown	0.8	1.1	0.4

---

[1] See note on table 18 about difference in data sources for 1979 and 1982.

[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.

[3] Source: Office of Family Assistance, Social Security Administration.

[4] Data are for October 1982–March 1983 and do not include Hawaii or the territories. Source: Office of Family Assistance, Social Security Administration.

[5] Full-time work, 30 hours or more per week; part-time work, fewer than 30 hours per week.

Table 21 presents data on income sources of AFDC families. It indicates that the share of AFDC families with earnings from the mother (or other caretaker relative) or from the spouse of the caretaker relative declined from 12.6 percent in March 1979 to 5.7 percent in March 1983. Further, according to the table, the average amount earned dropped, from $382 to $251 for mothers with earnings; and from $323 to $293 for fathers (or spouses of caretaker relatives) with earnings.

TABLE 21.—INCOME SOURCES OF AFDC FAMILIES,[1] MARCH 1979,[2] MAY 1982,[3] AND MARCH 1983[4]

Income source	Percentage of caseload with income type			Average amount for those with income type		
	March 1979	May 1982	March 1983	March 1979	May 1982	March 1983
Earned income:						
Mother (or caretaker relative)	12.0	5.3	5.2	$382	$261	251
Father (or spouse of caretaker relative)	0.6	0.4	0.5	323	244	293
Children (14+)	0.1	(5)	NA	206	398	NA
Other adults	0.1	NA	NA	265	NA	NA
Public service	0.1	NA	NA	246	NA	NA
OASDI	3.1	2.5	2.2	134	145	222
Veterans' benefits	0.4	NA	NA	128	NA	NA
Other pensions	0.4	0.4	0.4	143	134	196
Unemployment compensation	0.7	1.0	1.3	238	255	280
Workmen's compensation	0.1	(4)	NA	237	200	NA
Stepparent contributions or deemed income (1982)	0.2	0.3	NA	63	159	NA
Contributions from other persons	0.6	0.9	NA	72	79	NA
Other cash income	1.9	2.5	[6] 5.1	81	251	NA
In-kind income	0.4	NA	NA	71	NA	NA
Total	19.4	NA	NA	299	NA	NA

[1] See note on table 18 about differences in data sources for 1979 and 1982.

[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.

[3] Source: Office of Family Assistance, Social Security Administration.

[4] Data are for October 1982–March 1983 and do not include Texas, Hawaii and the territories. All percentages are based on an average monthly caseload of 3,543,000.

[5] Less than 0.05 percent.

[6] Includes Federal SSI, State SSI, general assistance, income from assets and property and other unearned income.

NA—not available.

Table 22 provides data on the share of AFDC families whose benefits were based on less than their gross cash income. That is, it summarizes information about disregarded (uncounted) income.

The table shows a decline in the share of families receiving the work incentive disregard (exclusion of the first $30 earned monthly plus one-third of the rest of earnings). This work incentive bonus was repealed in 1981, except for the first 4 months of a job. It indicates that the average amount of child care costs disregarded declined from $101 monthly in March 1979 (for those with such costs) to $86 in May 1982 and rose to $99 in March of 1983.

TABLE 22.—INCOME OF AFDC FAMILIES NOT COUNTED BY THE PROGRAM,[1] MARCH 1979,[2] MAY 1982,[3] AND MARCH 1982 [4]

Disregards	Percent of caseload with disregard			Average amount for those with disregard		
	March 1979	May 1982	March 1983 [4]	March 1979	May 1982	March 1983
Optional $5 disregard	1.1	(5)	(5)	$6	(5)	(5)
$30 and one-third of earned income	12.5	[6] 2.5	2.1	147	[6] $62	$88
Child care	3.9	1.3	1.2	101	86	99
Other work expenses	8.4	5.2	5.0	95	54	56
Cases with child care and other work expenses [7]	3.0			100		
Child support	0.1	(8)	NA	93	NA	NA
Other	1.6	0.4	NA	77	100	NA
Total	13.8	NA	NA	250	NA	NA

[1] See note on table 18 about differences in data sources for March 1979 and May 1982.

[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.

[3] Source: Office of Family Assistance, Social Security Administration.

[4] All percentages based on an average monthly caseload of 3,543,000. Data do not include Hawaii and the Territories. Data are for October 1982–March 1983.

[5] Repealed by 1981 law.

[6] Limited to 4 months' duration by 1981 law.

[7] In these cases, there was insufficient information in the data file to distinguish between child care and other work expenses.

[8] Less than 0.05 percent.

NA—Not available.

TURNOVER WITHIN THE AFDC CASELOAD

A 1983 study of AFDC families[2] found that although most "spells" of AFDC are relatively short, most persons enrolled in the program at any point in time are in the midst of spells that last at least 8 years. The study reported that half of AFDC spells lasted less than two years, but that 50.2 percent of the persons enrolled at a point in time were in the midst of very long episodes of AFDC and that such long-term recipients used most of the resources of the program.

In the period covered by the study, which preceded passage of the Omnibus Budget Reconciliation Act of 1981 (OBRA), AFDC benefits were phased out gradually as family earnings rose. Because of the work incentive bonus (disregard of the first $30 in monthly earnings plus one-third of the rest) and the deduction of all reasonable work expenses, the gross earnings limit for AFDC eligibility in most States was about double the maximum benefit paid to a family without countable income.

The rate of return to the program by those who ended a spell of AFDC was relatively high. Overall, 34 percent eventually resumed welfare. Among those who left welfare because of increased earnings, 40 percent later returned for another AFDC spell. AFDC returns also were common among those who left AFDC via marriage; 40 percent of these ex-welfare mothers also eventually returned to the rolls.

The study shed light on the routes into and out of AFDC before passage of OBRA. It reported:

Beginnings of AFDC spells.—Three-fourths of all spells began with a relationship change that created a female-headed family with children. Almost half the AFDC spells started after a wife became a female family head (by loss of the male head and his earnings due to absence, divorce, separation, death). Another 30 percent began when a never-married, divorced, or separated woman acquired a child.

In contrast to changes in family composition, changes in earnings were a relatively minor cause of resorting to welfare. The study found that only 12 percent of AFDC spells could be traced to a drop in family earnings.

Endings of AFDC spells.—The most common route out of AFDC was by way of a change in family structure. Some 46 percent of endings occurred this way—32 percent when a female head became a wife and 14 percent when the household no longer contained a child under 18.

Increased earnings were much more significant in ending AFDC than decreased earnings were in starting it. Some 39 percent of endings occurred this way—32 percent when the female head herself earned more money and 7 percent when another member of the family increased earnings.

Poverty status.—About 40 percent of those who ended AFDC spells were poor after their exit. About 52 percent of those whose

---

[2] Bane, Mary Jo, and Ellwood, David T., The Dynamics of Dependence; The Routes to Self-Sufficiency. Prepared for the U.S. Department of Health and Human Services under contract No. HHS-100-82-0038, June 1983. (Prepared by Urban Systems Research and Engineering, Inc., Cambridge, Mass.)

AFDC eligibility ended because they no longer had an eligible child were poor in the following year. For those who earned their way off AFDC, about 32 percent were poor in the year after their welfare spell; their poverty reflected the sub-poverty gross income eligibility limits of AFDC in many States.

THE 1984 AMENDMENTS

In June of 1984, Congress enacted H.R. 4170, the Deficit Reduction Reduction Act of 1984 (Public Law 98-369). This new law, which took effect on October 1, 1984, includes 22 AFDC amendments and an income and asset verification amendment which affected several programs, and are summarized below:

1. Gross income limitation.—Under prior law, eligibility for AFDC was limited to families with gross incomes at or below 150 percent of the State standard of need. The act increases the gross income limitation to 185 percent of the State standard of need.

2. Work expense deduction.—Under prior law, States were required to disregard the first $75 of monthly earnings for full-time work expenses; a lower deduction applied to part-time workers. The act requires States to disregard the first $75 monthly for full and part-time workers.

3. Continuation of $30 disregard.—Under prior law, the $30 plus one-third of remaining earnings disregard was limited to 4 months. The act retains the 4-month limit on the one-third disregard but extends the $30 disregard for an additional 8 months for a total of 12 months.

4. Work transition status.—Under prior law, a family who lost AFDC eligibility due to the 4-month limit on the earnings disregard, simultaneously lost categorical eligibility for Medicaid. The act provides that families who lose AFDC because of the termination of the earnings disregard will be eligible for 9 months of Medicaid coverage. At State option, an additional 6 months of Medicaid coverage can be provided. In addition, families who lost AFDC eligibility prior to enactment of the work transition will also be eligible for Medicaid under certain specified circumstances.

5. Clarification of earned income provisions.—The act clarifies that the term "earned income" as used in the AFDC program means the gross amount of earnings, prior to the taking of payroll or other deductions.

6. Burial plots, funeral agreements and certain property.—Under prior law, burial plots and funeral agreements were counted toward the $1,000 asset limit. The act exempts from the AFDC resources limitation, burial plots and funeral agreements. An AFDC policy on real property that is similar to SSI policy is also established.

7. Federal matching for Community Work Experience Program (CWEP) expenses.—Under prior law, States were required to reimburse a CWEP participant for necessary transportation and other expenses. Federal matching for this reimbursement was by regulation, limited to $25 per month. The act requires States to reimburse a CWEP participant for costs incurred if the State is unable to provide directly any transportation or day care services. Reimbursement of day care expenses is limited to those determined by the State to be reasonable, necessary and cost effective up to $160 per month per child.

8. Retrospective budgeting and monthly reporting.—Under prior law, monthly reporting and retrospective budgeting were required for all AFDC cases; however, the Secretary of Health and Human Services could waive the monthly reporting requirement if it was not cost effective to require the report. The act mandates retrospective budgeting for cases filing a monthly report. Monthly reporting is required when cost effective; cases with earned income and recent work history must report monthly.

9. Earned income tax credit (EITC).—Under prior law, States were required to assume that an individual was receiving the earned income tax credit on an advance basis regardless of when or if it was received. The act requires States to count the EITC only when actually received.

10. Demonstrations of one-stop service delivery.—The act authorizes from 3 to 5 Federally-assisted demonstration projects designed to test the effectiveness and efficiency of integrating the delivery of human services.

11. Work requirements for pregnant women.—The act adds to those who are exempt from work registration, any woman who is in the third trimester of pregnancy.

12. Recalculation of lump sum income.—Under prior law, States could only recalculate ineligibility due to receipt of lump sum income if a life threatening circumstance occurred. The act allows States to recalculate the ineligibility period under other specified circumstances. Ineligibility may be recalculated if: (1) an event occurs which would have changed the amount of AFDC paid; (2) the income becomes unavailable for reasons beyond the family's control; and/or (3) the family incurs, becomes responsible for and pays medical bills which offset the lump sum income.

13. Overpayment recoupment.—Under prior law, States were required to attempt to recover all benefit overpayments. The act permits States to waive overpayment recovery when it is not cost effective. States will be permitted to automatically waive overpayments of less than $35. Larger overpayments must be collected unless the State determines, after attempting to collect the overpayment, that the cost to collect would exceed the amount owed.

14. Protective payments.—Under prior law, States were required to make protective payments to a third party when a parent on AFDC failed to meet certain statutory procedural requirements. The act permits States to make the payment to the parent if, after all reasonable efforts have been made, a suitable protective payee cannot be found.

15. Eligibility requirements for aliens.—Under prior law the income of an individual who sponsors a non-refugee alien was deemed to be available to the alien for 3 years after entry into the United States. The act establishes a similar policy for aliens who are sponsored by organizations or agencies.

16. Fugitive felons.—The act permits States to disclose the current address of an AFDC recipient if a law enforcement agency provides the correct social security number and demonstrates that the recipient is a fugitive felon.

17. Payment schedule for back claims.—The act establishes a payment schedule for court-ordered reimbursements and certain other back claims owed by the Federal Government to the States that have been allowed or are pending.

18. Work supplementation program.—The act modifies the existing work supplementation program to provide additional flexibility to States in operating grant diversion programs in which all or part of the AFDC grant can be used to subsidize a job.

19. Disregard of in-kind income.—The act extends, until October 1, 1987, the disregard of certain in-kind assistance provided on the basis of need.

20. Standard filing unit/child support payments.—There was no requirement in prior law that parents and all siblings be included in the AFDC unit. The act requires States to include in the filing unit the parents and all minor siblings living with a dependent child who applies for or receives AFDC. In addition, a monthly disregard of $50 of child support received by a family is established.

21. CWEP work for Federal agencies.—The act permits Federal agencies or offices to serve as community work experience program (CWEP) sites under the same requirements as apply to other sites.

22. Earned income of full-time students.—For purposes of applying the gross income limitation, the act allows States to disregard the income of an AFDC child who is a full-time student.

23. Income and eligibility verification procedures.—Under present law, IRS wage information furnished by employers to IRS is available to State welfare agencies for use in their AFDC and food stamp programs, and to the Social Security Administration for administering the SSI program. However, IRS unearned income information (filed by a financial institution or corporation with respect to payments to individuals in the form of interest, dividends, etc.) is not available to Federal and State agencies for use in the administration of these programs. Quarterly wage information from the unemployment compensation program is available to State welfare agencies in most States.

Public Law 98-369 provides for the IRS to disclose return information with respect to unearned income to Federal, State, or local agencies administering AFDC, SSI, Medicaid, food stamps, and the cash assistance programs administered in Puerto Rico, Guam, and the Virgin Islands.

Disclosure can only be made to agencies that meet the requirements to safeguard this confidential information against disclosure, and verification of the unearned income information is required prior to taking action to reduce or terminate benefits.

The provision also replaces existing statutory provisions relating to use (for purposes of AFDC) of return and other wage information and use of social security numbers, by adding a new section to the Social Security Act requiring States to have in effect an income and eligibility verification system for use in administering the AFDC, Medicaid, unemployment compensation, and food stamp programs (and the adult assistance programs in the territories). State agencies must request and make use of: (1) wage and other income information available under the Internal Revenue Code; and (2) quarterly wage information. Each State is required as of September 30, 1988, to maintain a quarterly wage reporting system, although not necessarily through its unemployment compensation system.

The income and eligibility system requires use of standardized data formats to facilitate exchange of information, for the purpose of identifying and reducing ineligibility and incorrect payments.

IMPACT OF 1981 PROGRAM CHANGES

The Omnibus Budget Reconciliation Act of 1981 (OBRA) imposed a gross income limit for AFDC eligibility (150 percent of a State's need standard), capped the deduction for child care costs ($160 monthly per child), set a standard deduction for other work expenses ($75 monthly), and ended the work incentive disregard for working recipients after their first 4 months on a job. These provisions affected AFDC parents with jobs by reducing or ending their benefits. They also had potential effects on welfare mothers without jobs by reducing the gains possible from work, and on nonwelfare mothers with low earnings. Under previous law, a person in the latter group could increase total income by decreasing or ending earnings, enrolling in AFDC, and then resuming work. OBRA also required States to count part of the income of a stepparent as available to an AFDC child.

Former HHS Assistant Secretary Rubin reported in testimony that 408,000 families lost eligibility and 299,000 lost benefits as a result of the OBRA changes. The changes saved the Federal and State governments about $1.1 billion in 1983. This implies an average loss in benefits per family of $1,555 per year.

HHS evaluation of the 1981 AFDC amendments

A study commissioned by the Department of Health and Human Services[3] and prepared by Research Triangle Institute compared a national sample of AFDC families before and after OBRA.

Major findings include:

- —Earners in the 1981 sample (after OBRA) were more likely than 1980 earners (before OBRA) to be off the AFDC rolls a year later. The share of September 1981 earners no longer on welfare in October 1982 was 55 percent. Of September 1980 earners, 28 percent no longer were enrolled in the program a year later.
- —The rates of return to AFDC after leaving the rolls were "similar" for the two groups.
- —For both groups, approximately 18 percent of AFDC recipients who began the base year (1980 or 1981) with earnings no longer had a job at the end of the year and were receiving AFDC. This suggested that a "normal" rate of job loss occurred in both years and that OBRA had not induced a widespread change in behavior.
- —Of the September 1981 earners who no longer received an AFDC payment a year later, approximately 87 percent were working. Their average monthly earnings were $704. (Because of a low response rate to the follow-up survey of

---

[3] Final report, Evaluation of the 1981 AFDC Amendments, prepared by Research Triangle Institute under task order #1, contract No. 600-82-0095, and submitted to Office of Family Assistance, Social Security Administration, April 15, 1983.

former AFDC recipients, however, the report said these data "must be interpreted cautiously.")

—The unemployment rate seemed to have relatively little effect on AFDC participation and on earnings of AFDC recipients.

GAO evaluation of the 1981 amendments

At the request of the House Ways and Means Committee, the U.S. General Accounting Office conducted an in-depth evaluation of the effect of the 1981 amendments on individual AFDC families in five cities: Boston, Dallas, Memphis, Milwaukee, and Syracuse. GAO examined case records, analyzed 10 years of HHS program data, and interviewed former working AFDC recipients more than a year after their termination from AFDC due to the 1981 amendments.

Findings include:

—Once the declines in caseload and outlays stabilized, OBRA had decreased the national AFDC-basic monthly caseload by 493,000 cases and monthly outlays by $93 million. However, because the caseload rose faster than predicted after this point, long-term effects are less certain.

—Working AFDC recipients who lost eligibility due to the OBRA cuts were more likely to be non-white, younger than those who remained on AFDC (28–33) and had been working for their current employer between 1.7 and 3.4 years.

—Recipients who lost AFDC eligibility suffered a substantial loss of income which they could not make up by increased earnings or other means. The average *monthly* income loss for working single parent families who lost AFDC eligibility was $186 in Memphis, $229 in Dallas, $180 in Milwaukee, $151 in Syracuse, and $115 in Boston.

—A large number of families interviewed had fallen below the poverty level after the OBRA changes were implemented. This ranged from a high of 85.5 percent of families below poverty in Memphis to a low of 28 percent of the Milwaukee families interviewed in poverty.

—Lack of health coverage was common among these former AFDC recipients. In Dallas, 59.2 percent of those families who lost AFDC did not have any health coverage. In Memphis, 45 percent, in Boston 27.5 percent, in Syracuse, 17.1 percent and in Milwaukee, 13.9 percent had no health coverage at all. Private health insurance coverage was more common in high AFDC benefit States.

—Families terminated from AFDC were more likely to face increased emergency situations. In several sites, significantly more families had to forgo medical treatment or were refused medical and/or dental treatment because they could not pay. It was also more common for these families to run out of food before the end of the month, have to seek food from a church or charity group, or need to borrow $50 or more from friends or relatives to meet expenses. In all but one site, those terminated from AFDC said they are eating worse now than before.

BUDGETARY ESTIMATES OF 1981-84 LEGISLATIVE CHANGES IN THE AFDC PROGRAM

The 97th Congress made several changes in AFDC, most of which were estimated to reduce outlays in the program. The 98th Congress also amended AFDC, reversing some of the 1981 cuts. Below is a list of major provisions and the Federal outlay changes attributed to them by the Congressional Budget Office (CBO).

TABLE 23.—CBO ESTIMATES OF 1981, 1982, AND 1984 AFDC LEGISLATIVE CHANGES

[Millions of dollars]

	Fiscal year					
	1982	1983	1984	1985	1986	1987
1981 CHANGES (PUBLIC LAW 97–35)						
Limit and standardize earnings disregards	−345	−315	−325	−330	−330	NA
Change determination of resources	−16	−17	−17	−17	−17	NA
Permit offset for food stamps and housing subsidies	(1)	(1)	(1)	(1)	(1)	NA
Permit community work experience programs	NA	NA	NA	NA	NA	NA
Treat lump-sum payments as income	−5	−5	−5	−5	−5	NA
Count some income of stepparents living with dependent child	−154	−145	−136	−127	−118	NA
Exclude family of a striker from eligibility	−5	−5	−5	−5	−5	NA
Lower age limit of dependent child	−50	−52	−54	−56	−57	NA
Limit AFDC for pregnant women	−20	−21	−21	−23	−23	NA
Recover overpayments/pay under-payments	NA	NA	NA	NA	NA	NA
Reduce Federal matching for training	−16	−17	−18	−20	−20	NA
Require retrospective accounting and monthly reporting	(1)	−35	−65	−65	−65	NA
Eligibility of aliens for AFDC	−15	−15	−15	−15	−15	NA
Administrative savings	−11	−14	−18	−22	−26	NA
Total—AFDC [2]	−637	−641	−679	−685	−681	NA
1982 CHANGES (PUBLIC LAW 97–248)						
Round benefits down		−9	−10	−10	−10	−10
Prorate benefits to application date		−13	−14	−14	−14	−14
End military service absence as eligibility grounds		−15	−17	−17	−17	−18
Permit State job search			NA	NA	NA	NA
Permit proration of shelter and utilities		(1)	(1)	(1)	(1)	(1)
Change error rate sanctions		0	0	−62	−63	−63
Exclude certain State payments from countable income		0	0	0	0	0
Extend WIN demonstration		0	0	0	0	0
Exclude State payments to children		0	0	0	0	0
Technical amendments		+1	0	0	0	0
Exclude home energy assistance		+1	+2	+2	0	0
Total AFDC provisions [2]		−35	−39	−101	−104	−105
Food stamp impact of AFDC provisions [2]		+16	+18	+18	+18	+19

TABLE 23.—CBO ESTIMATES OF 1981, 1982, AND 1984 AFDC LEGISLATIVE CHANGES—Continued

[Millions of dollars]

	Fiscal year					
	1982	1983	1984	1985	1986	1987
1984 CHANGES (PUBLIC LAW 98-369)						
185 percent gross income limit				5	10	10
Raise part-time work expense deduction				20	20	20
Continue $30 for 12 months				10	10	10
Work transition Medicaid						
Optional MRRB				(1)	(1)	(1)
Count EITC only when received				8	3	3
Exempt burial plots				3	3	3
Reimburse CWEP expenses				5	5	5
Integrated service delivery					2	2
Clarify earned income definition			−5	−24	−24	−24
Standard filing unit				−135	−140	−145
$50 child support disregard [3]				115	115	115
Income verification				(1)	−30	−20
Total AFDC provisions			−5	7	−26	−21
Medicaid impact of AFDC provisions				145	175	195
Food stamp impact of AFDC provisions				−19	−21	−21
Net impact			−5	133	128	153

[1] Savings or costs of less than $5 million annually.

[2] Does not include any resulting impact on the medicaid and food stamp program.

[3] Includes the change made in Public Law 98-378 relating to calculation of the incentive payment to States.

NA—Not available.

Section 9. Child Support Enforcement Program

BACKGROUND

The enactment of the Child Support Enforcement (CSE) program in 1975 represented a major new commitment on the part of the Congress to address the problem of nonsupport of children. Although prior to that time the Social Security Act had included provisions which were aimed at improving the collection of support on behalf of children with absent parents, these provisions had not proved to be effective. The 1975 amendments were aimed at strengthening in a very significant way the efforts of the Federal and State governments to improve the enforcement of child support obligations.

The 1975 legislation (Public Law 93-647) added a new part D to title IV of the Social Security Act. The statute authorizes Federal matching funds to be used for enforcing the support obligations owed by absent parents to their children and the spouse (or former spouse) with whom the children are living, locating absent parents, establishing paternity, and obtaining child and spousal support. Basic responsibility for administering the program is left to the States, but the Federal Government also plays a major role in funding, monitoring and evaluating State programs, providing technical assistance, and in certain instances, in undertaking to give direct assistance to the States in locating absent parents and obtaining support payments from them. The program requires the provision of child support enforcement services for both welfare and nonwelfare families and States must frequently publicize, through public service announcements, the availability of child support enforcement services, together with information about the application fee and a telephone number or address to be used to obtain additional information.

WHO IS SERVED

Each State's plan must provide that the child support agency will undertake to secure support for an AFDC child whose rights to support have been assigned to the State. This includes nearly all AFDC children, since assignment of rights to support is a condition of eligibility for AFDC benefits. The State must also provide in its plan that it will undertake to establish the paternity of an AFDC child who is born out of wedlock. These requirements apply in all cases except where, in accordance with standards established by the Secretary, the State finds that to apply them would be against the best interests of the child. For families whose AFDC eligibility ends due to the receipt of (or an increase in) child support, States must continue to provide child support enforcement services, without imposing the application fee, discussed below, that is required for non-AFDC cases. This policy was established by Public Law 98-378.

With respect to non-AFDC families, the law provides that the State must make available, once an application is filed with the State agency, the child support collection and paternity determination services which are provided under the plan for AFDC families. The State must charge non-AFDC families an application fee of up to $25. The amount of the maximum allowable fee may be adjusted periodically by the Secretary of the Department of Health and Human Services to reflect changes in administrative costs. States may charge the fee against the custodial parent, pay the fee out of State funds, or recover it from the noncustodial parent.

States also have the option of charging a late payment fee equal to between 3 and 6 percent of the amount of overdue support. Late payment fees may be charged to the noncustodial parents of AFDC and non-AFDC families and are to be collected only after the full amount of the support has been paid to the child. In addition, a State may at its option recover costs in excess of the application fee. Such recovery may be from either the custodial parent or the absent parent. If a State chooses to make recovery from the custodial parent, it must have in effect a procedure whereby all persons in the State who have authority to order support are informed that such costs are to be collected from the custodial parent.

Finally, child support enforcement services must include the enforcement of spousal support, but only if a support obligation has been established with respect to the spouse, the child and spouse are living in the same household, and child support is being collected along with spousal support.

THE FEDERAL ROLE

The Federal statute provides that the child support program must be administered by a separate organizational unit under the control of a person designated by and reporting directly to the Secretary of Health and Human Services. Under the present organizational structure of the Department, the Commissioner of Social Security is the Director of the Federal Office of Child Support Enforcement (OCSE).

A primary responsibility of the director is to establish such standards for State programs for locating absent parents, establishing paternity, and obtaining child support and support for the spouse (or former spouse) with whom the absent parent's child is living as he determines to be necessary to assure that the programs will be effective. In addition to this broad statutory mandate, the director is required to establish minimum organizational and staffing requirements for State child support agencies, and to review and approve State plans.

The statute also requires the director of the OCSE to provide technical assistance to the States to help them establish effective systems for collecting child and spousal support and establishing paternity. To fulfill this requirement, the OCSE has established a National Child Support Enforcement Reference Center as a central location for the collection and dissemination of information about State and local programs. It has created a National Institute for

Child Support Enforcement to provide training and technical assistance to persons working in the field of child support enforcement. Special initiatives, such as a recent effort to assist major urban areas in improving program performance, have also been undertaken by the OCSE.

The Child Support Enforcement Amendments of 1984 (Public Law 98-378) extend the research and demonstration authority in section 1115 of the Social Security Act to the child support enforcement program. This will make it possible for States to test innovative approaches to support enforcement so long as the modification would not disadvantage children in need of support nor result in an increase in Federal AFDC costs. Public Law 98-378 also authorizes special project grants to promote improvement in interstate enforcement. The authorization is $7 million in fiscal year 1985, $12 million in fiscal year 1986, and $15 million in fiscal year 1987 and thereafter.

The director of the OCSE has full responsibility for program evaluation. Prior to fiscal year 1984 the statute required him to conduct an annual audit of each State's program to determine whether the actual operation of the program conformed to Federal requirements. The penalty for noncompliance is a reduction of 5 percent in the Federal matching that would otherwise be payable to the State under the Aid to Families With Dependent Children (AFDC) program. This penalty was never imposed; legislation was periodically enacted to suspend its implementation.

Public Law 98-378 modified these audit and penalty requirements. Audits are now required at least every 3 years to determine whether the standards and requirements prescribed by law and regulations have been met. Under the penalty provision, a State's AFDC matching funds must be reduced by an amount equal to at least 1 but no more than 2 percent for the first failure to comply substantially with the standards and requirements, at least 2 but no more than 3 percent for the second failure, and at least 3 but no more than 5 percent for the third and subsequent failures.

FEDERAL ENFORCEMENT TOOLS

The statute creates several Federal mechanisms to assist the States in performing their paternity and child support enforcement functions. These include use of the Internal Revenue Service, the Federal courts, and the Federal Parent Locator Service (FPLS).

The statute requires the Secretary of HHS, upon the request of a State, to certify to the Secretary of Treasury for collection by the IRS any amounts identified by the State as representing delinquent child support payments. The Secretary may certify only the amounts delinquent under a court or administrative order, and only upon a showing by the State that it has made diligent and reasonable efforts to collect amounts due using its own collection mechanisms. States must reimburse the Federal Government for any costs involved in making the collections. Collections may be made on behalf of both AFDC and non-AFDC families. Use by the States of this regular IRS collection mechanism (which may include seizure by the IRS of property, freezing of accounts, and other procedures) has been relatively infrequent. In fiscal year

1983, collections were made in only 1,322 cases nationwide, for a total collection of $592,347.

The availability of the IRS collection mechanism for child support was amplified in amendments enacted as part of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) to allow, in addition, the collection of past support from Federal tax refunds upon a simple showing by the State agency that an individual owes past-due support which has been assigned to the State as a condition of AFDC eligibility. Upon receiving this showing, the Secretary of Treasury is required to withhold from any tax refunds due that individual an amount equal to any past-due support. The withheld amount is sent to the State agency, together with notice of the taxpayer's current address. In fiscal year 1984, a total of 411,568 cases were offset, resulting in child support collections in excess of $204 million.

Public Law 98-378 created a similar IRS offset program for non-AFDC families owed child support. States must submit to the IRS for withholding, the names of absent parents who have arrearages of at least $500 and who, on the basis of current payment patterns and the enforcement efforts that have been made, are unlikely to pay the arrearage before the IRS offset can occur. The law establishes specific notice requirements and mandates that the absent parent and any spouse be informed of the procedures which may be taken to protect the unobligated spouse's portion of the refund. The provision applies to refunds payable after December 31, 1985, and before January 1, 1991.

States also may have access to the Federal courts to enforce court orders for support. The director of the Office of Child Support Enforcement must approve a State's application for permission to use the courts of the United States to enforce court orders for support upon a finding that: (1) another State has not undertaken to enforce the court order of the originating State against an absent parent within a reasonable time; and (2) that use of the Federal courts is the only reasonable method of enforcing such order. This mechanism, designed to assist the States in enforcing interstate cases, has gone unused, apparently because the States view it as costly and complex.

Finally, the statute also requires the establishment of a Federal Parent Locator Service to be used to find absent parents in order to enforce child support obligations. Upon request, the Secretary of HHS must provide to an authorized person the most recent address and place of employment of any absent parent if the information is contained in the records of the Department of Health and Human Services, or can be obtained from any other department or agency of the United States or of any State. The Secretary must also make available the services of the PLS to any State that wishes to locate an absent parent or child for the purpose of enforcing any Federal or State law with respect to the unlawful taking or restraint of a child, or making or enforcing a child custody determination.

THE STATE ROLE

Each State is required to designate a single and separate organizational unit of State government to administer the program. Earlier child support legislation, enacted in 1967, had required that the program be administered by the welfare agency. The 1975 act deleted this requirement in order to give each State the opportunity to select the most effective administrative mechanism. Most States have placed the child support agency within the social or human services umbrella agency which also administers the AFDC program. However, two States have placed the agency in the department of revenue. The law allows the programs to be administered either on the State or local level. Eight programs are locally administered. A few programs are State administered in some counties and locally administered in others.

States must have plans, approved by the director of the OCSE, which set forth their functions and responsibilities. Both AFDC and non-AFDC families must be served. States must also enter into cooperative arrangements with appropriate courts and law enforcement officials to assist the child support agency in administering the program. These agreements may include provision for reimbursing courts and law enforcement officials for their assistance. States must operate a parent locator service to locate absent parents, and they must maintain full records of collections and disbursements, and otherwise maintain an adequate reporting system.

In order to facilitate the collection of support in interstate cases, a State must cooperate with other States in establishing paternity, locating absent parents, and in securing compliance with an order issued by another State.

The law requires the States to use several enforcement tools. They must use the IRS tax refund offset procedure for AFDC and non-AFDC families, and they must also determine periodically whether any individuals receiving unemployment compensation owe child support obligations. The State employment security agency is required to withhold unemployment benefits, and to pay the child support agency any outstanding child support obligations established by an agreement with the individual or through legal processes.

Public Law 98-378 mandated that States use a number of other enforcement techniques, beginning on October 1, 1985. These include: (1) mandatory wage withholding if support payments are delinquent in an amount equal to one month's support; (2) imposing liens against real and personal property for amounts of overdue support; (3) withholding of State tax refunds payable to a parent who is delinquent in support payments; (4) making available information regarding the amount of overdue support owed to a consumer credit bureau upon a request; (5) requiring individuals who have demonstrated a pattern of delinquent payments to post a bond or give some other guarantee to secure payment of overdue support; (6) establishing expedited processes within the State judicial system or under administrative processes for obtaining and enforcing child support orders, and, at the option of the State, determining paternity; (7) notifying each AFDC recipient at least once each year of the amount of child support collected on behalf of that recipient; (8) permitting the establishment of paternity until a child's 18th birthday; and (9) at the option of the State, providing that child support payments must be made through the agency that administers the State's income withholding system if either the custodial or noncustodial parent requests that they be made in this manner.

State child support agencies are required to undertake child support collections on behalf of children receiving foster care maintenance payments under title IV-E of the Social Security Act, if an assignment of rights to support has been secured by the foster care agency. In addition, foster care agencies are required to take steps, where appropriate, to secure an assignment to the State of any rights to support on behalf of a child receiving foster care maintenance payments.

State agencies are also required, as a result of Public Law 98-378 and regulations which are to be issued by the Department of Health and Human Services, to petition to include medical support as part of any child support order whenever health care coverage is available to the noncustodial parent at a reasonable cost. And, if a family loses AFDC eligibility as the result of increased collection of support payments, the State must continue to provide Medicaid benefits for 4 calendar months beginning with the month of ineligibility.

Finally, the statute requires each State to comply with any other requirements and standards that the Secretary determines to be necessary to the establishment of an effective child support program.

FEDERAL GARNISHMENT AND MILITARY ALLOTMENT PROVISIONS

Title IV-D of the Social Security Act also includes a provision allowing garnishment of wages and other payments made by the Federal Government for enforcement of child support and alimony obligations. The statute provides that moneys (the entitlement to which is based upon remuneration for employment) payable by the United States to any individual are subject to legal process brought for the enforcement against such individual of his legal obligation to provide child support or make alimony payments. The law sets forth in detail the procedures which must be followed for service of legal process, and specifies that the term "based upon remuneration for employment" includes wages, periodic benefits for the payment of pensions, retirement or retired pay (including social security and other retirement benefits), and other kinds of Federal payments. The following Federal income sources may not be garnished: any payment as compensation for death under any Federal program; Federal "black lung" benefits; Veterans' Administration pensions or payments as compensation for a service-related disability or death; and amounts paid to defray employment-related expenses.

As amended by Public Law 97-248, the law presently requires allotments from the pay and allowances of any member of the uniformed service (on active duty) when he fails to make child (or child and spousal) support payments. The requirement arises when the service member fails to make support payments in an amount at least equal to the value of 2 months' worth of support. Provisions of the Consumer Credit Protection Act apply so that the percentage of the member's pay which is subject to allotment is limited. The amount of the allotment is the amount of the support payment, as established under a legally enforceable administrative or judicial order.

FINANCING

Through fiscal year 1987, the Federal Government will pay 70 percent of State and local administrative costs for services to both AFDC and non-AFDC families on an open-end entitlement basis. The matching rate was reduced from 75 to 70 percent by a provision in Public Law 97-248 and, under the terms of Public Law 98-378, will decline to 68 percent in fiscal years 1988 and 1989, and 66 percent in fiscal year 1990 and each year thereafter. Funding for services to non-AFDC families was originally enacted on a temporary basis, but was made permanent in Public Law 96-272.

In addition, 90 percent Federal matching is available on an open-end entitlement basis to States that elect to establish an automatic data processing and information retrieval system. The Secretary must approve the system as meeting specified criteria before matching may be paid to the State. The matching rate was increased from 75 to 90 percent in Public Law 96-265. Public Law 98-378 permits States to use this 90 percent Federal match to establish an automated data processing and information retrieval system and, at the option of the State, for the development and improvement of the income withholding and other procedures required by the new law. These matching funds may also be used to pay for the acquisition of computer hardware.

Collections made on behalf of AFDC families are used to offset the cost to the Federal and State governments of welfare payments made to the family. The amounts retained by the government are distributed between the Federal and State governments according to the proportional matching share which each has under a State's AFDC program.

Finally, the statute includes an incentive system designed to encourage State and local governments to participate in the program. As a result of Public Law 98-378, the prior incentive formula, which gave States 12 percent of their AFDC collections (paid for out of the Federal share of collections), will be replaced beginning on October 1, 1985, with a new formula that is designed to encourage States to develop programs that emphasize collections on behalf of both AFDC and non-AFDC families, and to improve program cost effectiveness. The basic incentive payment will be equal to 6 percent of the State's AFDC collections and 6 percent of its non-AFDC collections. States may qualify for higher incentive payments, up to a maximum of 10 percent of collections, if their AFDC or non-AFDC collections exceed total administrative costs for the program.

The total dollar amount of incentives paid for non-AFDC families may not exceed the amount of the State's incentive payment for AFDC collections for fiscal years 1986 and 1987. However, thereafter the incentive paid for non-AFDC collections will be capped at an amount equal to 105 percent of the incentive for AFDC collections in fiscal year 1988, 110 percent in fiscal year 1989, and 115 percent in fiscal year 1990 and thereafter. The statute also establishes a hold harmless provision for fiscal years 1986 and 1987.

Under this provision, a State is eligible to receive the higher of the amount due it under the new incentive and match provisions or 80 percent of what it would have received under the existing 12 percent incentive formula and 70 percent match.

PROGRAM TRENDS

The Child Support Enforcement program has grown significantly since its implementation in August 1975. From fiscal year 1976 through fiscal year 1983, more than $10.8 billion in child support payments have been collected: $4.7 billion on behalf of families receiving AFDC, and $6.1 billion on behalf of non-AFDC families.

In fiscal year 1984, collections on behalf of AFDC families reached $1 billion; collections on behalf of non-AFDC families reached $1.375 billion. Total administrative expenditures were about $723 million, resulting in $3.29 collected per dollar of total administrative expenses. In fiscal year 1984, the number of parents located totaled 875,000, and the number of paternities established reached 219,000. Both were an increase of more than 90 percent over 1978. The number of AFDC and non-AFDC cases in which a collection was made also continued to grow, as did the dollar amount of collections. Tables 1–18 present data showing the development of the child support program in recent years.

TABLE 1.—PROGRAM OPERATIONS, SUMMARY OF NATIONAL STATISTICS, FISCAL YEARS 1978–1984

[Numbers in thousands]

	1978	1979	1980	1981	1982	1983	1984
Total child support collections	$1,046,690	$1,332,847	$1,477,564	$1,628,927	$1,771,016	$2,022,247	$2,375,662
Total AFDC collections	$471,567	$596,532	$603,074	$670,637	$786,078	$880,155	$1,000,453
Total non-AFDC collections	$575,123	$736,315	$874,491	$958,291	$984,938	$1,142,093	$1,375,209
Total administrative expenditures	$312,339	$383,163	$465,604	$526,423	$611,792	$691,045	$723,082
Federal incentive payments to States and localities	$54,096	$66,255	$72,410	$90,911	$106,624	$120,726	$133,718
Average number of AFDC cases in which a collection was made	458	463	503	548	597	595	647
Average number of non-AFDC cases in which a collection was made	249	224	243	325	448	505	547
Number of families removed from AFDC due to child support collections	19	27	40	46	32	26	40
Number of parents located	454	574	643	696	779	831	875
Number of paternities established	111	138	144	164	173	209	219
Number of support obligations established	315	349	374	414	462	495	573
Percent of AFDC assistance payments recovered through child support collections	([1])	5.6	5.2	5.2	6.8	6.6	NA
Total child support collections per dollar of total administrative expenses	$3.35	$3.48	$3.17	$3.09	$2.89	$2.93	$3.29

[1] Not available.

Source: Office of Child Support Enforcement.

TABLE 2.—STATE PROFILE OF COLLECTIONS AND EXPENDITURES, FISCAL YEAR 1984

[In millions of dollars]

State	Total collections	AFDC collections	Non-AFDC collections	Total expenditures
U.S. total	2,375.8	1,000.5	1,375.5	723.0
Alabama	12.0	8.8	3.2	10.8
Alaska	10.3	1.7	8.6	4.3
Arizona	14.2	2.2	12.1	6.5
Arkansas	7.8	5.2	2.6	4.8
California	285.8	152.0	133.8	123.9
Colorado	15.1	9.0	6.1	8.8
Connecticut	43.2	21.9	21.2	12.8
Delaware	9.8	3.5	6.3	2.1
District of Columbia	4.0	2.2	1.8	4.6
Florida	42.8	30.6	12.2	17.6
Georgia	18.6	14.8	3.8	10.3
Guam	.5	.3	.2	.3
Hawaii	10.3	4.5	5.8	4.3
Idaho	4.7	3.9	.9	2.5
Illinois	42.9	24.4	18.5	18.6
Indiana	26.0	22.5	3.5	7.9
Iowa	33.1	22.5	10.6	5.8
Kansas	10.9	8.1	2.8	4.7
Kentucky	22.4	6.4	16.0	8.1
Louisiana	27.4	10.3	17.1	14.0
Maine	12.1	9.7	2.4	3.2
Maryland	76.6	24.2	52.4	18.5
Massachusetts	84.1	42.9	41.1	23.7
Michigan	305.4	106.8	198.7	44.5
Minnesota	52.2	28.6	23.6	17.8
Mississippi	5.3	4.9	.4	3.0
Missouri	24.8	14.3	10.5	9.4
Montana	2.9	2.3	.6	1.3
Nebraska	24.5	4.6	19.9	4.3
Nevada	6.4	1.8	4.7	3.4
New Hampshire	11.9	2.5	9.5	2.3
New Jersey	183.4	50.3	133.0	40.3
New Mexico	5.5	3.5	2.0	3.2
New York	182.5	68.7	113.8	89.8
North Carolina	37.3	20.9	16.4	14.1
North Dakota	3.4	2.4	1.0	1.5
Ohio	41.6	39.9	1.7	21.3
Oklahoma	7.5	5.6	1.9	5.5
Oregon	37.4	12.2	25.2	12.4
Pennsylvania	325.2	57.9	267.3	39.1
Puerto Rico	85.2	1.2	84.0	3.5
Rhode Island	7.9	5.0	2.9	2.4
South Carolina	11.1	8.7	2.3	4.4
South Dakota	2.7	2.1	.6	1.2
Tennessee	22.3	6.5	15.8	7.0
Texas	25.0	13.2	11.8	14.1
Utah	14.7	11.6	3.1	7.3
Vermont	2.9	2.7	.2	1.2
Virgin Islands	1.5	.2	1.3	.4
Virginia	14.0	12.0	2.0	8.0
Washington	46.0	29.2	16.9	18.9
West Virginia	4.0	3.9	.1	2.6
Wisconsin	65.4	44.5	20.9	20.2
Wyoming	1.3	.9	.4	.5

Source: Office of Child Support Enforcement.

TABLE 3.—TOTAL CHILD SUPPORT COLLECTIONS, FISCAL YEARS 1979–1984

[In thousands of dollars]

State	1979	1980	1981	1982	1983	1984
Alabama	6,854	6,573	5,021	8,060	8,643	11,978
Alaska	3,844	4,665	5,932	7,388	9,704	10,307
Arizona	6,411	7,073	8,755	10,421	10,563	14,247
Arkansas	3,921	4,568	4,856	5,553	7,401	7,809
California	199,945	194,793	201,426	247,023	254,586	285,804
Colorado	4,020	5,916	12,302	16,938	17,178	15,129
Connecticut	23,033	25,994	29,602	37,078	39,227	43,160
Delaware	5,814	6,460	6,945	7,383	8,097	9,758
District of Columbia	1,086	1,654	1,909	2,575	3,521	3,893
Florida	10,524	12,326	16,932	20,274	19,080	42,753
Georgia	5,554	6,480	8,304	9,500	13,439	18,586
Guam	160	104	149	250	391	485
Hawaii	5,150	4,951	7,547	8,224	10,087	10,272
Idaho	2,500	2,919	3,277	4,448	4,699	4,728
Illinois	19,749	17,447	13,943	21,599	32,073	42,879
Indiana	9,073	10,912	12,339	14,999	29,789	29,048
Iowa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Kansas	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Kentucky	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Louisiana	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Maine	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Maryland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Massachusetts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Michigan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Minnesota	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mississippi	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Missouri	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Montana	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nebraska	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nevada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Hampshire	2,069	2,233	2,336	4,620	11,501	11,914
New Jersey	94,005	100,552	104,353	131,805	143,225	183,372
New Mexico	1,590	2,041	2,743	3,471	4,514	5,523
New York	136,364	145,004	141,570	151,803	174,454	182,541
North Carolina	9,168	11,443	17,136	22,267	30,830	37,292
North Dakota	1,723	1,567	1,936	2,302	2,723	3,372
Ohio	22,832	26,452	30,467	30,954	34,862	40,570
Oklahoma	1,826	2,234	3,224	3,896	5,233	7,546
Oregon	88,502	96,495	105,670	46,865	38,052	37,401
Pennsylvania	186,718	198,998	222,548	255,481	285,829	325,194
Puerto Rico	1,916	2,215	2,459	17,383	31,985	85,211
Rhode Island	3,575	3,727	3,772	5,381	7,196	7,882
South Carolina	3,545	4,506	5,323	6,153	7,461	11,078
South Dakota	1,407	1,634	1,768	2,122	2,847	2,732
Tennessee	8,976	11,143	10,145	17,491	16,077	22,295
Texas	8,207	9,877	11,633	13,841	17,941	25,004
Utah	6,624	7,427	9,710	11,946	13,564	14,666
Vermont	1,446	1,773	2,166	3,267	2,828	2,876
Virginia	6,167	8,746	9,604	12,230	13,617	13,566
Virgin Islands	260	346	429	657	664	1,479
Washington	27,018	28,298	31,756	36,551	41,643	46,035
West Virginia	1,562	1,976	2,349	2,637	3,434	3,877
Wisconsin	34,267	36,803	42,195	43,152	56,041	65,434
Wyoming	520	668	781	877	1,017	1,253
Nationwide total	1,332,847	1,477,564	1,628,027	1,770,378	2,024,184	2,375,662

Source: Office of Child Support Enforc

TABLE 4.—TOTAL AFDC COLLECTIONS, FISCAL YEARS 1979–1984

[In thousands of dollars]

State	1979	1980	1981	1982	1983	1984
Alabama	6,830	6,572	5,021	8,060	7,789	8,778
Alaska	334	588	772	1,048	1,780	1,728
Arizona	642	926	1,221	1,250	1,459	2,165
Arkansas	2,428	2,388	2,684	3,032	4,593	5,183
California	117,532	95,127	100,437	136,394	136,963	151,998
Colorado	3,525	3,742	4,505	5,990	9,330	8,986
Connecticut	11,416	13,163	15,684	21,308	20,628	21,945
Delaware	1,386	1,700	2,001	1,958	2,276	3,501
District of Columbia	907	1,286	1,379	1,813	2,421	2,242
Florida	8,598	10,772	12,289	14,286	10,408	30,587
Georgia	4,772	5,720	7,441	8,107	11,355	14,816
Guam	159	103	117	166	259	236
Hawaii	2,544	2,853	3,127	3,345	4,482	4,489
Idaho	2,047	2,399	2,659	3,409	3,809	3,879
Illinois	9,410	11,271	12,347	17,019	18,471	24,415
Indiana	8,119	9,183	10,129	11,990	17,449	22,941
Iowa	10,694	12,774	15,219	18,114	19,484	22,318
Kansas	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Kentucky	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Louisiana	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Maine	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Maryland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Massachusetts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Michigan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Minnesota	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mississippi	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Missouri	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Montana	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nebraska	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nevada	317	563	679	[illegible]	[illegible]	[illegible]
New Hampshire	2,048	2,134	2,320	2,363	2,949	3,439
New Jersey	28,530	30,597	31,985	33,606	41,125	50,343
New Mexico	1,150	1,478	1,507	2,213	2,881	3,537
New York	56,588	48,694	47,790	54,532	68,522	68,705
North Carolina	7,754	9,414	11,774	12,795	18,795	20,878
North Dakota	1,379	1,325	1,542	1,763	2,011	2,353
Ohio	20,374	25,548	30,494	30,082	33,403	38,318
Oklahoma	1,260	1,524	2,254	2,607	3,648	5,603
Oregon	12,977	14,142	13,305	16,451	12,645	12,217
Pennsylvania	33,190	33,434	37,381	40,586	47,135	57,897
Puerto Rico	439	626	717	687	917	1,211
Rhode Island	3,438	3,581	3,624	3,869	4,217	4,967
South Carolina	3,065	3,775	4,437	4,712	6,015	8,745
South Dakota	1,137	1,264	1,225	1,432	2,175	2,111
Tennessee	3,871	4,167	3,519	5,901	6,567	6,467
Texas	6,370	7,156	8,308	6,869	10,879	13,246
Utah	5,442	6,111	8,133	10,065	11,643	11,591
Vermont	1,201	1,468	1,640	3,038	2,626	2,668
Virginia	9,081	8,264	8,737	10,368	11,758	12,027
Virgin Islands	143	131	150	179	140	159
Washington	16,310	18,128	16,244	22,083	26,405	29,173
West Virginia	1,430	1,843	2,201	2,488	3,311	3,868
Wisconsin	26,044	28,792	33,029	32,020	38,582	44,522
Wyoming	379	471	536	618	796	855
Nationwide total	596,532	603,074	670,637	785,931	879,862	1,000,453

Source: Office of Child Support Enforcement.

TABLE 5.—TOTAL NON-AFDC COLLECTIONS, FISCAL YEARS 1979–1984

[In thousands of dollars]

State	1979	1980	1981	1982	1983	1984
Alabama	16	910	698	160	854	3,199
Alaska	3,510	4,077	5,159	6,340	7,924	8,579
Arizona	5,769	6,147	7,534	9,171	9,104	12,081
Arkansas	1,494	2,180	2,172	2,521	2,808	2,625
California	82,412	99,666	100,989	110,630	117,623	133,805
Colorado	496	2,173	7,797	10,948	7,848	6,143
Connecticut	11,617	12,830	13,918	15,770	18,599	21,215
Delaware	4,428	4,760	4,943	5,426	5,821	6,257
District of Columbia	179	368	530	761	1,100	1,751
Florida	1,926	1,554	4,643	5,988	8,672	12,165
Georgia	783	759	863	1,393	2,084	3,770
Guam	(1)	900	32	95	131	189
Hawaii	2,606	4,098	4,420	4,879	5,605	5,783
Idaho	454	606	617	1,039	884	857
Illinois	823	1,179	1,596	4,585	13,094	18,461
Indiana	957	1,459	2,219	2,929	3,142	3,909
Iowa	2,393	3,282	6,394	8,090	9,701	10,621
Kansas	929	1,001	1,029	1,829	2,114	2,799
Kentucky	299	10,789	10,418	10,899	12,397	19,977
Louisiana	7,434	9,349	10,894	12,019	16,114	17,099
Maine	441	991	940	1,474	1,822	2,239
Maryland	9,927	12,240	19,201	30,913	40,339	62,730
Massachusetts	7,129	11,671	18,715	22,234	31,644	41,140
Michigan	172,039	212,393	218,093	139,099	170,190	190,900
Minnesota	6,661	8,629	9,099	14,709	19,164	23,331
Mississippi	190	172	229	390	344	399
Missouri	1,663	4,739	5,841	6,159	6,618	10,696
Montana	329	399	509	513	560	621
Nebraska	365	371	3,910	13,369	16,369	19,367
Nevada	3,979	3,390	3,132	3,305	3,721	4,563
New Hampshire	3	79	113	2,319	8,973	9,453
New Jersey	63,383	71,905	70,969	97,391	103,133	133,030
New Mexico	520	631	941	1,252	1,723	1,386
New York	79,773	96,320	93,880	97,171	106,831	113,836
North Carolina	1,454	2,029	5,422	9,472	12,035	16,414
North Dakota	344	342	394	549	702	1,019
Ohio	858	904	972	872	1,459	1,652
Oklahoma	566	710	970	1,289	1,585	1,942
Oregon	75,525	82,354	92,364	30,234	25,406	25,184
Pennsylvania	153,528	165,564	185,167	214,895	238,694	267,297
Puerto Rico	1,477	1,589	1,742	16,697	31,068	84,000
Rhode Island	137	146	148	1,512	2,979	2,915
South Carolina	480	730	886	1,441	1,446	2,332
South Dakota	270	370	543	690	672	621
Tennessee	5,106	6,976	6,626	11,591	13,510	15,828
Texas	1,837	2,722	3,325	6,973	7,062	11,758
Utah	1,183	1,317	1,577	1,883	1,952	3,075
Vermont	249	276	260	219	202	211
Virginia	116	484	1,167	1,832	1,858	1,970
Virgin Islands	116	215	278	479	544	1,320
Washington	8,666	10,170	12,512	14,467	16,148	16,861
West Virginia	162	133	147	140	123	109
Wisconsin	6,224	6,010	6,165	11,132	16,459	20,612
Wyoming	141	197	245	258	227	398
Nationwide total	736,315	874,491	958,291	984,447	1,144,322	1,375,209

Source: Office of Child Support Enforcement.

TABLE 6.—AVERAGE NUMBER OF AFDC CHILD SUPPORT ENFORCEMENT CASES IN WHICH A COLLECTION WAS MADE, FISCAL YEARS 1978–1984

State	1978	1979	1980	1981	1982	1983	1984
Total	458,439	463,100	502,603	547,707	597,231	594,611	646,516
Alabama	7,966	21,489	20,155	18,398	18,675	16,301	15,166
Alaska	246	213	325	613	909	1,154	1,180
Arizona	819	906	1,025	1,094	1,018	1,164	1,813
Arkansas	2,509	2,641	2,808	3,019	3,090	3,683	4,591
California	92,325	76,460	80,428	86,859	[1] 123,393	86,277	91,956
Colorado	3,177	2,875	2,643	3,322	3,539	4,129	5,096
Connecticut	8,002	9,078	9,862	11,245	[2] 12,571	13,591	14,600
Delaware	1,156	1,704	1,718	2,313	1,691	2,254	2,684
District of Columbia	708	758	870	848	[2] 1,063	1,508	1,999
Florida	7,376	6,710	8,657	9,837	9,325	11,856	15,596
Georgia	6,350	6,823	6,346	7,360	6,946	7,826	8,964
Guam	([3])	([3])	111	102	131	186	193
Hawaii	1,757	1,869	2,125	2,319	2,272	2,718	3,128
Idaho	1,344	1,156	1,289	1,122	[2] 1,484	939	2,482
Illinois	9,624	10,362	11,901	13,717	[2] 14,611	15,551	17,822
Indiana	[illegible]	[illegible]	[illegible]	[illegible]	[4] 13,813	[illegible]	[illegible]
Iowa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Kansas	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Kentucky	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Louisiana	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Maine	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Maryland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Massachusetts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Michigan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Minnesota	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mississippi	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Missouri	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Montana	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nebraska	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nevada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Hampshire	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Jersey	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Mexico	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New York	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North Carolina	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North Dakota	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ohio	24,415	20,650	20,383	26,787	24,513	26,764	28,770
Oklahoma	1,100	724	1,733	2,152	2,253	2,487	3,223
Oregon	6,764	6,770	6,765	6,330	4,399	4,020	6,202
Pennsylvania	15,172	13,376	17,207	[6] 22,406	[6] 29,370	35,405	39,565
Puerto Rico	413	636	1,466	2,044	1,880	2,280	2,583
Rhode Island	2,419	2,698	2,878	3,176	3,337	2,440	3,138
South Carolina	3,343	([3])	4,510	4,091	3,760	4,182	5,571
South Dakota	1,087	983	972	1,016	1,064	1,223	1,279
Tennessee	4,705	4,674	5,547	6,099	5,967	6,642	7,273
Texas	5,446	5,641	5,363	5,370	4,013	4,055	4,674
Utah	3,784	3,857	4,264	4,663	5,784	5,346	5,686
Vermont	953	1,057	1,222	1,778	1,972	2,223	2,167
Virgin Islands	232	145	136	115	123	82	121
Virginia	4,729	2,802	5,570	9,068	12,979	13,564	13,815
Washington	14,860	14,184	16,347	15,078	[7] 12,619	14,160	15,900
West Virginia	1,430	1,721	1,632	1,825	1,824	2,044	2,247
Wisconsin	16,464	21,361	20,603	20,514	20,281	26,106	24,166
Wyoming	294	267	316	346	347	420	393

[1] OCSE estimate, based on data submitted through time of publication.

[2] Increase due to impact of Federal Tax Refund Offset Program.

[3] Data not reported for this item or insufficient data reported to perform indicated computation.

[4] Indiana: Increase due to enlargement of State's total IV-D AFDC caseload.

[5] New York: Increase reflects unrealistically low average in fiscal year 1981, due to incomplete reporting by New York City.

[6] Pennsylvania: Increases due to greater number of counties reporting data and to more accurate data resulting from improved county ADP systems.

[7] Washington: Decrease due to change from estimated to actual case counts.

Source: Office of Child Support Enforcement.

TABLE 7.—AVERAGE NUMBER OF NON-AFDC CHILD SUPPORT ENFORCEMENT CASES IN WHICH A COLLECTION WAS MADE, FISCAL YEARS 1978–1984

State	1978	1979	1980	1981	1982	1983	1984
Total	248,590	223,809	243,468	325,280	448,102	505,061	546,977
Alabama	110	50	43	26	31	221	893
Alaska	2,309	2,008	1,876	1,967	2,451	3,035	3,260
Arizona	(1)	3,478	0	0	4,422	5,525	5,148
Arkansas	764	1,521	1,993	2,137	2,581	2,803	3,194
California	69,696	54,019	55,766	56,803	[2] 59,245	66,164	63,650
Colorado	1,017	780	1,010	2,963	4,069	3,647	2,091
Connecticut	(1)	0	0	0	0	7,826	8,484
Delaware	3,210	3,104	3,122	3,302	3,175	3,611	3,788
District of Columbia	93	43	138	200	370	478	900
Florida	1,200	2,101	1,071	1,941	[3] 4,025	8,002	3,581
Georgia	1,207	1,451	1,553	2,018	2,855	4,091	6,001
Guam	(1)	0	1	39	61	63	81
Hawaii	(1)	0	0	261	298	308	321
Idaho	455	314	387	435	611	591	586
Illinois	196	1,260	2,336	3,423	[4] 6,205	6,433	6,603
Indiana	450	675	861	1,209	1,546	1,784	1,972
Iowa	671	1,460	1,870	3,419	3,738	4,192	4,240
Kansas	210	320	494	945	1,184	1,449	1,668
Kentucky	255	1,667	1,549	2,076	2,449	3,657	3,836
Louisiana	6,866	965	436	7,706	8,060	9,517	9,987
Maine	638	296	645	196	271	296	933
Maryland	130	0	0	6,186	15,849	27,384	26,232
Massachusetts	(1)	0	0	0	0	0	0
Michigan	(1)	0	0	0	53,137	51,304	50,131
Minnesota	2,766	3,866	5,115	5,707	[5] 8,331	10,263	11,128
Mississippi	81	153	199	248	318	320	456
Missouri	(1)	913	1,283	1,754	2,490	1,631	1,754
Montana	444	301	361	329	340	348	348
Nebraska	176	181	210	2,432	[6] 5,011	4,942	7,122
Nevada	4,026	2,558	3,250	4,650	4,792	3,813	4,758
New Hampshire	(1)	0	0	0	0	5,433	5,036
New Jersey	20,000	13,295	17,206	29,130	34,662	38,557	44,345
New Mexico	286	875	573	1,035	1,504	1,806	1,624
New York	39,623	37,854	31,618	48,370	55,832	54,296	60,471
North Carolina	1,715	0	2,360	3,190	4,524	5,910	7,800
North Dakota	154	149	91	99	127	171	221
Ohio	1,430	1,033	916	1,857	3,540	4,594	7,756
Oklahoma	(1)	184	565	719	1,078	1,269	1,400
Oregon	17,957	28,807	32,499	32,472	[7] 16,065	16,262	16,520
Pennsylvania	49,621	37,877	47,648	66,691	[8] 90,694	92,084	104,449
Puerto Rico	710	178	2,420	[9] 6,846	[9] 9,114	17,908	22,916
Rhode Island	57	110	190	294	1,900	1,407	1,941
South Carolina	203	0	188	472	1,013	1,198	1,948
South Dakota	297	254	320	391	491	512	516
Tennessee	6,360	7,816	7,981	6,251	8,532	10,271	11,032
Texas	2,861	1,673	2,602	2,744	3,888	4,224	4,575
Utah	400	427	512	489	632	698	889
Vermont	181	194	195	194	172	194	153
Virgin Islands	1	64	162	188	267	262	925
Virginia	38	36	201	1,078	914	1,554	916
Washington	4,822	5,115	5,802	6,215	6,648	7,422	8,824
West Virginia	130	147	137	185	386	186	125
Wisconsin	4,685	4,150	3,597	3,876	8,061	6,719	9,303
Wyoming	89	87	116	122	143	125	146

---

[1] Data not reported for this item or insufficient data reported to perform indicated computation.

[2] OCSE estimate, based on data submitted through time of publication.

[3] Florida: Increase due to more accurate data resulting from new State Management Information System.

[4] Illinois: Increase due to enlargement of State's total non-AFDC caseload.

[5] Minnesota: Increase due to enlargement of State's total non-AFDC caseload.

[6] Nebraska: Increase in fiscal year 1982 due to irregular reporting by clerks of district courts and county attorneys offices.

[7] Oregon: Decrease due to change in State law regarding umbrella agency's jurisdiction over all non-AFDC families for whom support payments are to be made; now only families specifically requesting enforcement services are counted.

[8] Pennsylvania: Increase due to greater number of counties reporting and to more accurate data resulting from improved county ADP systems.

[9] Puerto Rico: Increases due to updating of caseload files and revision of previously reported data by Office of Court Administration.

Source: Office of Child Support Enforcement.

TABLE 8.—NUMBER OF FAMILIES REMOVED FROM AFDC DUE TO CHILD SUPPORT COLLECTIONS, FISCAL YEARS 1978–1984

State	1978	1979	1980	1981	1982	1983	1984
Total	18,744	27,480	40,312	45,631	31,883	26,167	40,490
Alabama	1,048	284	523	135	113	2,011	968
Alaska	(1)	398	100	150	200	220	40
Arizona	118	17	10	31	[2] 47	10	0
Arkansas	824	215	268	297	[3] 507	308	159
California	(1)	0	0	0	0	0	88
Colorado	1,419	288	113	172	[4] 568	0	2,625
Connecticut	(1)	640	293	209	[5] 77	196	228
Delaware	(1)	128	0	0	62	94	62
District of Columbia	7	11	53	53	90	0	75
Florida	434	356	458	582	332	457	819
Georgia	(1)	272	107	0	469	37	1,302
Guam	(1)	0	1	15	13	69	0
Hawaii	29	0	24	27	239	189	114
Idaho	66	80	93	480	104	55	8
Illinois	718	0	0	0	0	546	765
Indiana	(1)	0	1,468	5,770	322	0	863
Iowa	(1)	780	82	41	18	23	78
Kansas	1,770	1,197	8	483	421	89	270
Kentucky	(1)	0	379	436	0	375	287
Louisiana	(1)	796	161	1,022	[6] 685	732	767
Maine	(1)	0	0	650	454	572	167
Maryland	1,848	1,184	1,217	970	[7] 668	648	1,074
Massachusetts	(1)	206	0	0	0	370	664
Michigan	209	1,417	1,232	1,639	1,391	1,008	1,059
Minnesota	582	490	912	1,146	1,032	815	1,458
Mississippi	47	0	80	86	218	0	23
Missouri	(1)	96	12,954	952	0	0	0
Montana	138	141	99	82	120	29	90
Nebraska	96	72	56	46	32	3	7
Nevada	(1)	0	28	106	65	111	80
New Hampshire	34	0	0	0	0	0	0
New Jersey	2,007	2,218	2,366	3,155	3,265	2,573	4,450
New Mexico	123	7	70	66	27	47	20
New York	(1)	2,050	1,920	2,495	[8] 5,027	3,318	5,124
North Carolina	(1)	244	166	289	0	288	333
North Dakota	(1)	1,218	445	125	125	578	2,207
Ohio	(1)	243	95	584	544	501	338
Oklahoma	859	208	117	159	128	169	199
Oregon	3,144	3,654	788	478	269	243	205
Pennsylvania	(1)	2,713	2,351	0	0	905	1,390
Puerto Rico	113	64	35	260	272	556	2,399
Rhode Island	(1)	1,810	1,482	1,383	1,548	0	363
South Carolina	51	0	788	724	931	0	1,475
South Dakota	287	136	153	123	126	30	112
Tennessee	(1)	0	2,857	16,152	6,300	4,223	2,857
Texas	1,921	1,697	1,909	1,405	[9] 2,314	2,111	3,618
Utah	329	331	293	401	337	0	321
Vermont	(1)	0	0	0	0	0	0
Virgin Islands	(1)	5	0	1	0	0	0
Virginia	167	1,475	2,769	524	166	0	0
Washington	(1)	0	0	0	0	0	0
West Virginia	270	250	907	1,383	1,457	932	775
Wisconsin	(1)	0	0	233	756	518	157
Wyoming	86	89	82	111	44	208	7

---

[1] Data not reported for this item or insufficient data reported to perform indicated computation.
[2] Arizona: Represents data for only 11 months of the fiscal year.
[3] Arkansas: Increase due to reduced AFDC grant payments during 1st and 2nd quarters, causing more cases to close when collections made.
[4] Colorado: Increase due to reporting of data for 12 months instead of 2.
[5] Connecticut: Represents data for 4th quarter only.
[6] Louisiana: Decrease due to high unemployment rates causing decrease in payments from absent parents.
[7] Maryland: Decrease due to incomplete reporting by counties; no data collected from Baltimore County.
[8] New York: Increase due to more accurate data resulting from improved reporting by districts.
[9] Texas: Increase due to increased enforcement of court orders.

Note: These data are maintained by IV–A agencies, which often results in reporting difficulties for IV–D agencies.

Source: Office of Child Support Enforcement.

TABLE 9.—TOTAL NUMBER OF PATERNITIES ESTABLISHED, FISCAL YEARS 1978–1984

State	1978	1979	1980	1981	1982	1983	1984
Total	110,714	137,645	144,483	163,538	172,767	208,320	219,350
Alabama	6,160	6,161	6,302	4,884	4,472	4,833	4,921
Alaska	5	3	53	73	98	105	90
Arizona	287	154	485	542	618	595	500
Arkansas	3,745	2,586	730	677	1,131	1,489	1,911
California	14,188	19,364	15,444	22,791	[1] 21,427	21,714	24,378
Colorado	1,137	1,046	1,301	1,103	1,154	1,033	1,183
Connecticut	2,566	3,029	3,021	3,769	4,397	4,563	4,363
Delaware	242	205	831	694	871	1,346	929
District of Columbia	378	386	737	907	941	811	471
Florida	6,684	7,078	7,524	7,557	[2] 8,870	10,679	15,741
Georgia	2,527	3,642	4,965	5,329	5,452	6,102	6,518
Guam	(3)	(3)	138	297	144	173	115
Hawaii	726	854	656	794	1,077	1,181	888
Idaho	40	287	76	79	34	84	205
Illinois	1,351	3,025	4,434	6,028	6,194	7,339	4,711
Indiana	2,052	1,644	2,519	1,287	[4] 3,853	3,036	6,859
Iowa	(3)	575	1,080	1,373	1,121	922	1,072
Kansas	521	696	1,030	1,141	978	682	404
Kentucky	367	784	1,819	2,157	2,453	2,986	2,774
Louisiana	1,013	1,304	2,095	2,869	3,273	3,195	3,180
Maine	(3)	382	633	339	595	604	554
Maryland	6,294	13,307	8,330	10,435	[5] 8,417	8,211	8,290
Massachusetts	1,218	2,096	3,035	3,564	3,429	3,766	3,841
Michigan	6,567	7,529	8,751	10,696	[6] 12,952	17,374	13,875
Minnesota	1,249	1,786	2,523	2,526	2,707	2,994	3,084
Mississippi	819	932	1,696	1,725	1,751	1,797	2,139
Missouri	(3)	(3)	171	476	424	17,522	17,046
Montana	68	92	170	97	[7] 56	37	33
Nebraska	(3)	(3)	60	268	335	410	449
Nevada	214	233	189	395	[8] 626	459	356
New Hampshire	42	35	78	71	64	30	52
New Jersey	7,503	8,242	9,417	11,282	9,647	10,616	11,739
New Mexico	170	322	659	1,258	1,071	1,141	970
New York	16,025	17,503	14,072	12,041	12,751	15,884	17,403
North Carolina	5,129	6,592	7,399	6,728	7,071	7,368	7,185
North Dakota	280	293	337	328	284	440	488
Ohio	2,305	4,808	6,464	7,658	8,552	7,767	9,804
Oklahoma	32	43	452	698	[9] 1,132	1,811	562
Oregon	1,528	1,521	2,101	2,199	2,190	2,173	1,947
Pennsylvania	4,811	4,450	5,384	7,305	9,362	11,906	13,404
Puerto Rico	25	22	23	38	37	19	12
Rhode Island	(3)	347	478	354	333	451	549
South Carolina	1,055	1,378	1,547	1,536	1,413	2,552	3,879
South Dakota	104	60	83	137	159	172	227
Tennessee	5,077	5,003	5,871	5,669	5,913	6,592	6,217
Texas	215	202	1,454	1,822	1,862	1,085	769
Utah	166	487	545	1,076	1,229	1,546	1,669
Vermont	77	44	180	245	234	349	379
Virgin Islands	1	4	11	3	22	104	15
Virginia	846	1,452	1,712	1,995	2,463	2,351	1,990
Washington	291	656	850	981	1,474	1,700	1,905
West Virginia	155	156	422	484	521	467	378
Wisconsin	4,440	4,803	4,079	4,672	5,025	5,688	6,895
Wyoming	19	44	67	88	108	66	32

---

[1] OCSE estimate, based on data submitted through time of publication.

[2] Florida: Increase due to hiring new staff, to change in tactics caused by legal decision, to increased number of applicants for non-AFDC services, and to increased number of illegitimate births.

[3] Data not reported for this item or insufficient data reported to perform indicated computation.

[4] Indiana: Increase due to correction of error in reporting method and resulting inclusion of previously unreported data.

[5] Maryland: Decrease due to concentration of staff efforts on locate activity.

[6] Michigan: Increase due to reporting of previously unavailable data from contracted agencies.

[7] Montana: Decrease due to hiring freeze and centralization of non-AFDC caseload, resulting in fewer staff available to maintain caseload.

[8] Nevada: Increase due to increased staffing and worker effectiveness.

[9] Oklahoma: Increase due to more voluntary acknowledgments resulting from improved methods of paternity establishment.

Source: Office of Child Support Enforcement.

TABLE 10.—TOTAL NUMBER OF SUPPORT OBLIGATIONS ESTABLISHED, FISCAL YEARS 1978–84

State	1978	1979	1980	1981	1982	1983	1984
Total	314,584	349,122	374,434	414,053	462,128	496,368	573,472
Alabama	8,545	7,585	7,626	5,137	5,978	6,766	11,615
Alaska	178	553	755	955	1,159	1,197	1,145
Arizona	(1)	686	2,133	2,993	3,014	3,069	2,145
Arkansas	6,277	3,382	3,274	3,484	3,121	3,519	4,666
California	51,752	61,806	51,267	63,323	[2] 56,402	54,598	56,528
Colorado	5,553	4,996	9,376	6,560	6,087	6,356	4,370
Connecticut	27,858	11,123	11,562	12,474	11,867	16,272	10,115
Delaware	247	276	1,196	1,814	2,415	1,709	1,406
District of Columbia	468	416	637	550	432	357	879
Florida	13,742	11,560	12,384	13,778	[3] 15,562	18,098	16,686
Georgia	4,443	5,739	6,764	7,372	7,631	9,551	9,894
Guam	(1)	(1)	112	169	98	132	81
Hawaii	2,585	1,748	1,104	2,069	2,476	3,351	3,297
Idaho	899	9,444	2,721	3,965	1,962	763	648
Illinois	16,512	11,379	10,676	10,933	14,995	22,850	19,198
Indiana	3,471	2,314	6,982	12,719	11,915	12,282	12,556
Iowa	(1)	4,204	8,260	10,752	[4] 9,393	8,490	10,701
Kansas	5,301	2,781	2,565	2,600	2,587	1,636	1,823
Kentucky	516	1,590	3,402	5,718	[5] 3,914	4,826	6,181
Louisiana	2,094	4,587	5,606	7,678	8,502	9,483	23,617
Maine	(1)	1,115	1,140	3,109	3,388	3,374	3,657
Maryland	10,341	8,128	7,040	10,100	[6] 7,878	9,238	22,818
Massachusetts	10,154	9,758	9,604	12,414	16,785	9,196	9,806
Michigan	6,123	7,572	10,587	10,445	[7] 13,303	15,436	24,826
Minnesota	1,747	4,095	10,882	8,268	7,810	6,626	10,236
Mississippi	720	730	751	822	808	861	1,680
Missouri	(1)	(1)	2,013	3,719	[8] 2,335	12,110	25,053
Montana	139	78	127	69	[9] 377	486	625
Nebraska	218	(1)	180	789	832	875	737
Nevada	1,889	1,579	2,171	4,362	3,842	3,957	3,858
New Hampshire	162	1,828	186	219	107	2,060	425
New Jersey	18,408	27,034	20,521	24,744	25,447	28,481	32,484
New Mexico	1,758	2,826	3,486	4,416	3,478	4,290	3,672
New York	25,098	28,379	28,159	27,987	28,036	37,131	45,144
North Carolina	4,282	10,577	11,732	11,473	11,964	12,584	12,467
North Dakota	589	571	474	443	547	528	647
Ohio	6,216	10,248	12,261	7,796	[10] 11,310	8,461	14,475
Oklahoma	624	1,770	2,314	3,824	3,703	3,747	4,549
Oregon	479	7,660	7,373	7,259	6,004	6,989	5,323
Pennsylvania	30,243	32,347	36,060	34,942	[11] 75,106	71,041	73,671
Puerto Rico	1,484	1,199	2,790	5,372	7,817	9,623	12,385
Rhode Island	(1)	2,391	3,027	2,835	1,824	4,514	2,517
South Carolina	1,065	924	1,285	1,272	1,278	1,928	5,862
South Dakota	1,735	(1)	284	338	354	516	516
Tennessee	2,603	3,408	3,741	4,149	8,545	7,307	9,234
Texas	12,171	12,066	13,482	11,784	12,331	13,523	10,437
Utah	4,520	3,582	5,593	4,794	5,338	6,251	7,894
Vermont	250	944	1,127	1,327	1,049	1,436	1,465
Virgin Islands	116	33	155	138	186	142	462
Virginia	969	2,407	5,590	7,949	8,646	5,223	3,913
Washington	10,340	9,546	9,826	9,211	10,072	10,948	9,416
West Virginia	349	382	950	728	580	558	686
Wisconsin	9,170	9,678	11,028	11,544	11,190	11,306	14,656
Wyoming	181	98	93	369	348	317	325

---

[1] Data not reported for this item or insufficient data reported to perform indicated computation.

[2] OCSE estimate based on data submitted through time of publication.

[3] Florida: Increase due to hiring of new staff, to change in tactics caused by legal decision, implementation of recommendations from Federal comprehensive review and to personnel reorganization which allowed investigators more time to work on establishments.

[4] Iowa: Decrease due to implementation of case prioritization procedures.

[5] Kentucky: Decrease due to change in data collection methodology and to reduced AFDC caseload resulting from more stringent N–A eligibility requirements.

[6] Maryland: Decrease due to concentration of staff efforts on locate activity.

[7] Michigan: Increase due to reporting of previously unavailable data from contracted agencies.

[8] Missouri: Decrease due to reporting problems resulting from implementation of new State ADP system.

[9] Montana: Increase due to clarification of reporting requirements.

[10] Ohio: Increase due to greater efforts on part of county workers.

[11] Pennsylvania: Increase due to greater number of counties reporting data and to more accurate data resulting from improved county ADP systems.

Source: Office of Child Support Enforcement.

TABLE 11.—PERCENTAGE OF AFDC ASSISTANCE PAYMENTS RECOVERED THROUGH CHILD SUPPORT COLLECTIONS, FISCAL YEARS 1979–1984

State	1979	1980	1981	1982	1983	1984
Total	5.8	5.2	5.2	6.8	6.6	7.0
Alabama	8.5	8.2	6.5	[1,2] 11.2	10.6	12.0
Alaska	1.5	2.3	2.3	3.2	5.9	4.6
Arizona	2.0	2.4	2.6	2.5	2.3	3.2
Arkansas	4.8	4.8	5.3	[2,3] 8.9	13.3	13.3
California	6.5	4.6	4.0	[1,3] 6.2	4.6	4.8
Colorado	4.8	4.9	5.1	[2,3] 7.6	9.4	8.4
Connecticut	6.5	7.0	7.6	[3] 10.5	12.7	9.8
Delaware	4.4	5.5	6.2	7.3	8.4	12.7
District of Columbia	1.0	1.4	1.6	2.1	3.0	3.0
Florida	5.5	5.6	5.9	[1,2] 6.9	4.3	12.3
Georgia	4.3	4.4	5.0	4.7	6.0	7.5
Guam	5.3	3.0	3.0	5.0	6.1	6.2
Hawaii	2.9	3.2	3.4	4.1	5.3	5.4
Idaho	8.9	9.2	12.1	[1,2] 17.0	17.8	18.8
Illinois	1.5	1.6	1.6	2.3	2.3	2.9
Indiana	7.2	7.2	7.0	[1,2] 8.4	12.1	14.8
Iowa	9.0	9.3	10.3	[2,3] 14.4	13.5	14.2
Kansas	5.0	5.7	6.0	[2,3] 10.8	8.6	8.4
Kentucky	3.8	3.1	2.9	3.1	5.0	4.7
Louisiana	5.2	5.9	5.7	[2,3] 7.3	7.2	7.1
Maine	7.3	7.4	8.1	10.2	13.3	14.0
Maryland	6.1	6.6	7.0	7.4	12.4	17.6
Massachusetts	6.6	6.3	7.4	[1,2] 9.1	13.6	13.3
Michigan	9.0	8.0	7.9	[2,3] 12.9	8.6	8.8
Minnesota	7.8	7.9	8.4	[2,3] 11.2	10.0	10.0
Mississippi	2.9	3.3	3.7	4.3	8.0	8.5
Missouri	2.8	3.0	3.4	[2,3] 7.1	6.1	7.3
Montana	4.4	4.7	5.6	6.7	7.7	8.4
Nebraska	5.4	6.4	6.4	7.0	7.3	8.1
Nevada	6.3	7.1	7.1	[2,3] 12.5	16.8	17.3
New Hampshire	9.4	8.5	8.0	[2,3] 9.4	11.2	11.3
New Jersey	5.9	6.1	5.9	7.0	8.1	10.3
New Mexico	3.4	3.6	4.2	5.0	6.7	7.2
New York	3.5	3.4	3.2	3.5	3.9	3.6
North Carolina	5.6	6.2	7.5	[2,3] 8.9	16.3	14.1
North Dakota	9.6	9.1	9.8	[2,3] 12.3	13.5	14.6
Ohio	4.8	4.8	5.0	6.1	5.1	5.5
Oklahoma	1.6	1.7	2.5	3.5	4.7	6.6
Oregon	9.0	9.5	12.0	[2,3] 16.6	12.6	12.1
Pennsylvania	4.6	4.6	4.9	6.0	6.4	8.0
Puerto Rico	.7	1.1	1.1	1.1	2.9	1.8
Rhode Island	6.1	5.0	4.8	5.7	6.3	7.1
South Carolina	5.4	5.6	5.6	6.2	7.9	11.7
South Dakota	6.5	6.9	7.1	[2] 8.6	12.4	12.3
Tennessee	5.0	5.2	4.1	[1,2] 7.9	6.9	7.8
Texas	5.4	5.8	6.3	5.8	7.0	7.0
Utah	13.7	14.2	16.3	[2,3] 21.2	21.6	23.0
Vermont	4.1	4.4	5.0	[2,3] 9.1	7.2	6.7
Virgin Islands	8.5	4.9	5.3	6.3	4.7	5.0
Virginia	6.3	5.4	5.0	[1,2] 6.3	7.0	7.3
Washington	12.5	7.7	8.1	9.2	10.1	9.9
West Virginia	2.6	3.2	3.6	[2,3] 5.6	5.8	5.2
Wisconsin	9.5	8.6	8.7	9.5	8.8	8.5
Wyoming	5.6	5.7	6.3	7.2	7.1	7.3

---

[1] Increase due in part to increased AFDC child support collections. For explanation, see footnotes for Total Distributed AFDC Collections (1982).

[2] Increase due in part or in whole to decreased AFDC maintenance assistance payments.

[3] Increase due in part or in whole to increased AFDC child support collections resulting from the Federal Tax Refund Offset Program.

Note: Payments to AFDC Unemployed Parent (UP) families have been excluded from the maintenance assistance payments totals in those States having AFDC–UP programs.

Source: Office of Child Support Enforcement.

TABLE 12.—FEDERAL INCOME TAX REFUND OFFSET PROGRAM COLLECTIONS, FISCAL YEARS 1982–1984

State	1982	1983	1984
Alabama	829,981	1,554,532	2,438,075
Alaska	113,964	211,588	302,922
Arizona		385,357	748,557
Arkansas	678,754	1,103,566	1,386,540
California	47,278,536	35,033,947	34,378,912
Colorado	1,318,097	3,016,164	2,771,764
Connecticut	6,589,307	4,455,263	4,193,916
Delaware	44,975	165,929	1,113,150
District of Columbia	586,913	566,848	694,106
Florida	47,460	1,979,829	2,932,974
Georgia	17,724	1,525,893	2,684,691
Guam		13,495	20,822
Hawaii	311,330	816,566	986,024
Idaho	1,492,980	1,183,105	1,199,305
Illinois	3,522,114	4,524,565	8,651,417
Indiana	1,278,354	4,939,883	8,537,166
Iowa	4,328,872	5,526,322	6,503,704
Kansas	2,685,617	2,525,333	2,634,443
Kentucky	2,168,561	1,165,135	2,043,980
Louisiana	1,426,863	1,536,006	1,958,915
Maine	664,374	1,844,168	2,114,258
Maryland	7,912,475	5,687,760	6,333,562
Massachusetts	2,139,366	3,324,872	2,992,203
Michigan	20,928,752	18,249,916	19,174,089
Minnesota	7,040,081	5,575,703	5,925,460
Mississippi	1,055,579	1,019,253	1,535,952
Missouri	6,467,902	4,288,944	4,607,125
Montana	177,985	431,107	610,862
Nebraska		501,968	784,106
Nevada	428,182	354,403	366,334
New Hampshire	474,129	756,639	545,252
New Jersey	9,348,364	9,458,355	10,232,231
New Mexico	206,602	533,226	702,254
New York	7,445,728	9,945,365	8,247,539
North Carolina	39,888	4,234,868	4,616,756
North Dakota	320,818	351,782	560,929
Ohio	649,865	2,885,540	5,145,031
Oklahoma	49,690	702,729	1,796,087
Oregon	7,069,119	3,782,458	3,520,661
Pennsylvania	2,304,759	6,112,433	13,567,884
Puerto Rico		1,742	22,852
Rhode Island	87,631	838,028	742,855
South Carolina	138,404	367,589	719,987
South Dakota	275,351	374,463	510,993
Tennessee	41,501	641,997	1,221,963
Texas		3,906,440	4,994,786
Utah	3,635,336	2,539,972	2,558,126
Vermont	1,245,080	611,431	590,943
Virgin Islands			
Virginia	1,435,103	1,674,400	1,946,585
Washington	3,001,125	4,277,743	5,003,042
West Virginia	258,507	1,037,796	1,595,140
Wisconsin	8,340,059	6,265,914	5,102,546
Wyoming	165,555	221,757	191,272
Nationwide total	168,067,712	175,021,087	204,761,048

Source: Office of Child Support Enforcement.

TABLE 13.—ADMINISTRATIVE EXPENDITURES FOR THE CHILD SUPPORT ENFORCEMENT PROGRAM, FISCAL YEARS 1979–1984

[In thousands of dollars]

State	1979	1980	1981	1982	1983	1984
Alabama	4,633	5,368	5,637	7,089	9,132	10,757
Alaska	2,137	2,245	2,422	2,760	4,016	4,314
Arizona	2,014	3,401	4,659	3,415	5,891	6,550
Arkansas	2,385	3,191	3,657	4,722	4,539	4,796
California	75,579	90,486	100,807	112,766	127,171	123,947
Colorado	3,861	5,497	6,078	6,630	7,987	8,774
Connecticut	5,463	6,436	7,833	9,462	11,899	12,847
Delaware	852	1,011	2,512	2,066	3,299	2,104
District of Columbia	1,652	2,655	3,255	4,267	4,968	4,604
Florida	7,047	9,709	10,345	14,109	15,718	17,568
Georgia	3,238	4,148	4,777	7,089	8,208	10,299
Guam	108	131	161	223	315	319
Hawaii	1,408	2,026	2,708	3,094	3,705	4,338
Idaho	1,063	1,157	1,464	1,684	2,145	2,537
Illinois	6,930	10,486	14,622	16,627	16,320	18,589
Indiana	4,269	5,532	6,147	7,619	6,766	7,925
Iowa	4,239	4,749	5,808	6,231	5,930	5,821
Kansas	1,819	3,236	3,843	4,660	5,220	4,695
Kentucky	4,027	4,771	6,012	7,075	7,674	8,143
Louisiana	7,079	7,818	9,401	10,546	12,860	14,013
Maine	1,229	1,564	1,863	2,625	2,942	3,217
Maryland	8,177	10,371	13,973	13,886	16,355	18,484
Massachusetts	6,710	9,986	14,271	16,533	19,794	23,650
Michigan	24,614	26,708	30,364	36,575	41,365	44,523
Minnesota	9,273	11,994	12,937	16,407	17,358	17,760
Mississippi	1,574	1,722	1,965	2,402	2,936	3,018
Missouri	5,355	6,385	7,287	7,612	9,080	9,409
Montana	943	1,002	1,062	1,049	1,128	1,274
Nebraska	1,378	1,585	2,328	3,770	3,546	4,255
Nevada	1,891	2,437	3,023	3,130	3,437	3,364
New Hampshire	847	1,032	1,019	1,483	2,198	2,302
New Jersey	21,677	24,809	28,578	33,260	36,082	40,267
New Mexico	1,437	1,859	2,147	2,674	3,221	3,228
New York	61,665	65,332	63,658	77,830	86,437	89,777
North Carolina	5,721	7,309	8,705	11,150	12,296	14,059
North Dakota	702	787	1,024	1,210	1,246	1,458
Ohio	11,581	15,511	18,307	18,610	19,824	21,286
Oklahoma	2,771	3,818	4,896	6,128	6,117	5,548
Oregon	7,475	10,101	11,569	11,300	11,032	12,432
Pennsylvania	19,639	24,715	29,943	34,527	42,962	39,120
Puerto Rico	862	1,016	1,654	2,868	3,374	3,462
Rhode Island	1,079	1,423	1,584	2,033	2,141	2,354
South Carolina	1,777	1,853	2,215	2,353	2,887	4,445
South Dakota	1,060	981	1,026	1,175	1,198	1,173
Tennessee	3,046	4,508	5,504	6,420	7,041	7,026
Texas	11,733	14,606	14,256	16,492	15,071	14,124
Utah	3,094	4,208	4,982	5,629	6,789	7,308
Vermont	649	799	891	812	958	1,181
Virginia	4,787	6,194	7,038	7,645	7,668	8,029
Virgin Islands	483	467	323	217	319	420
Washington	10,733	12,004	11,826	13,300	16,979	18,934
West Virginia	1,676	1,929	2,404	2,962	2,550	2,613
Wisconsin	7,562	12,329	11,375	15,211	20,662	20,157
Wyoming	160	205	278	380	373	485
Nationwide total	383,163	465,604	526,423	611,792	691,130	723,082

Source: Office of Child Support Enforcement.

TABLE 14.—TOTAL CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, FISCAL YEARS 1978–1984

State	1978	1979	1980	1981	1982	1983	1984
U.S. ratio	3.35	3.48	3.17	3.09	2.89	2.93	3.29
Alabama	.75	1.48	1.22	.89	1.14	.95	1.11
Alaska	3.19	1.80	2.08	2.45	2.68	2.42	2.39
Arizona	.88	3.18	2.08	1.88	3.05	1.79	2.18
Arkansas	1.00	1.64	1.43	1.33	1.18	1.63	1.63
California	2.15	2.65	2.15	2.00	2.19	2.00	2.31
Colorado	1.78	1.04	1.00	2.02	2.55	2.15	1.72
Connecticut	4.20	4.22	4.04	3.78	3.92	3.30	3.36
Delaware	7.14	6.82	6.39	2.76	3.57	2.45	4.64
District of Columbia	.73	.66	.62	.59	.60	.71	.87
Florida	1.20	1.49	1.27	1.64	1.44	1.21	2.43
Georgia	2.22	1.72	1.56	1.74	1.34	1.64	1.80
Guam		1.48	.79	.92	1.16	1.24	1.52
Hawaii	1.71	3.66	3.43	2.79	2.66	2.72	2.37
Idaho	2.10	2.35	2.52	2.24	2.64	2.17	1.86
Illinois	2.10	1.55	1.19	.95	1.30	1.96	2.31
Indiana	2.42	2.13	1.92	2.01	1.91	3.07	3.29
Iowa	3.49	3.07	3.38	3.71	4.30	4.92	5.69
Kansas	3.01	2.19	1.66	1.80	2.06	1.90	2.32
Kentucky	1.14	1.21	3.08	2.45	2.07	2.57	2.75
Louisiana	1.82	1.79	1.92	1.90	2.12	2.00	1.96
Maine	3.40	3.72	3.16	3.05	2.84	3.48	3.75
Maryland	2.14	2.55	2.55	2.52	3.94	4.72	4.15
Massachusetts	5.12	5.42	4.29	3.71	3.85	3.65	3.55
Michigan	9.50	10.09	10.86	10.06	6.57	6.62	6.86
Minnesota	2.15	2.30	2.08	2.32	2.31	2.59	2.94
Mississippi	.87	1.06	1.24	1.28	1.12	1.66	1.76
Missouri	.89	1.09	1.52	1.70	2.44	2.00	2.64
Montana	1.58	1.29	1.52	1.60	1.67	2.14	2.27
Nebraska	2.10	1.79	1.86	4.65	4.54	5.73	5.76
Nevada	1.83	1.84	1.26	1.33	1.51	1.62	1.91
New Hampshire	4.05	2.47	2.16	2.29	3.12	6.29	5.18
New Jersey	4.16	4.37	3.98	3.82	4.03	3.97	4.55
New Mexico	1.17	1.17	1.10	1.28	1.30	1.43	1.71
New York	1.75	2.21	2.22	2.23	1.95	2.02	2.03
North Carolina	1.50	1.60	1.57	1.98	2.00	2.51	2.65
North Dakota	1.83	2.45	2.12	1.89	1.91	2.10	2.31
Ohio	2.50	1.97	1.71	1.72	1.66	1.76	1.95
Oklahoma	.76	.66	.59	.66	.64	.86	1.36
Oregon	9.48	11.84	9.55	9.13	4.19	3.25	3.01
Pennsylvania	9.14	9.51	8.05	7.43	7.26	6.65	8.31
Puerto Rico	.92	2.22	2.18	1.49	6.06	9.48	24.61
Rhode Island	3.51	3.31	2.62	2.38	2.65	3.36	3.35
South Carolina	2.38	1.99	2.43	2.40	2.61	2.58	2.49
South Dakota	.99	1.33	1.67	1.72	1.81	2.38	2.33
Tennessee	2.49	2.95	2.47	1.84	2.72	2.71	3.17
Texas	.74	.70	.68	.82	.84	1.19	1.77
Utah	1.99	2.14	1.76	1.95	2.12	2.05	2.01
Vermont	2.24	2.23	2.22	2.47	4.01	2.95	2.44
Virgin Islands	.40	.54	.74	1.33	3.03	2.14	3.52
Virginia	.72	1.92	1.41	1.41	1.60	1.78	1.74
Washington	2.96	2.52	2.36	2.69	2.75	2.45	2.43
West Virginia	.74	.95	1.02	.98	.89	1.35	1.52
Wisconsin	3.80	4.53	2.99	3.71	2.84	2.71	3.25
Wyoming	3.18	3.25	3.25	2.81	2.31	2.72	2.58

Source: Office of Child Support Enforcement.

TABLE 15.—AFDC CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, FISCAL YEARS 1980–1984

State	1980	1981	1982	1983	1984
Alabama	1.22	0.89	1.14	0.85	0.82
Alaska	.26	.32	.38	.44	.40
Arizona	.27	.26	.37	.25	.33
Arkansas	.75	.73	.64	1.01	1.08
California	1.05	1.00	1.21	1.08	1.23
Colorado	.68	.74	.90	1.17	1.02
Connecticut	2.05	2.00	2.25	1.73	1.71
Delaware	1.68	.80	.95	.69	1.66
District of Columbia	.48	.42	.42	.49	.49
Florida	1.11	1.19	1.01	.66	1.74
Georgia	1.38	1.56	1.14	1.38	1.44
Guam	.79	.72	.74	.82	.93
Hawaii	1.41	1.15	1.08	1.21	1.03
Idaho	1.99	1.82	2.02	1.77	1.53
Illinois	1.07	.84	1.02	1.16	1.31
Indiana	1.66	1.65	1.53	2.61	2.84
Iowa	2.69	2.62	2.91	3.29	3.87
Kansas	1.35	1.37	1.67	1.50	1.73
Kentucky	.82	.72	.53	.82	.78
Louisiana	.86	.79	.88	.75	.74
Maine	2.78	2.54	2.28	2.86	3.01
Maryland	1.27	1.14	1.09	1.70	1.31
Massachusetts	3.12	2.68	2.44	2.04	1.81
Michigan	2.91	2.88	2.77	2.36	2.40
Minnesota	1.36	1.57	1.41	1.48	1.61
Mississippi	1.14	1.16	1.00	1.55	1.62
Missouri	.78	.88	1.63	1.27	1.52
Montana	.83	.98	1.18	1.63	1.78
Nebraska	1.56	1.30	.84	1.04	1.08
Nevada	.28	.29	.48	.53	.52
New Hampshire	2.09	2.18	1.55	1.21	1.07
New Jersey	1.24	1.12	1.01	1.14	1.25
New Mexico	.76	.89	.83	.90	1.10
New York	.75	.75	.70	.79	.77
North Carolina	1.29	1.35	1.15	1.53	1.49
North Dakota	1.68	1.51	1.46	1.61	1.61
Ohio	1.65	1.67	1.62	1.68	1.88
Oklahoma	.40	.46	.43	.60	1.01
Oregon	1.40	1.15	1.46	1.15	.98
Pennsylvania	1.35	1.25	1.18	1.10	1.48
Puerto Rico	.62	.43	.24	.27	.35
Rhode Island	2.52	2.29	1.90	1.97	2.11
South Carolina	2.04	2.00	2.00	2.08	1.97
South Dakota	1.29	1.19	1.22	1.81	1.80
Tennessee	.92	.64	.92	.79	.92
Texas	.49	.58	.42	.72	.94
Utah	1.45	1.63	1.79	1.71	1.59
Vermont	1.87	2.18	3.74	2.74	2.26
Virgin Islands	.28	.47	.82	.44	.38
Virginia	1.33	1.24	1.36	1.53	1.50
Washington	1.51	1.63	1.66	1.56	1.54
West Virginia	.96	.92	.84	1.30	1.48
Wisconsin	2.34	2.90	2.11	1.92	2.21
Wyoming	2.29	1.93	1.63	2.12	1.76
Nationwide total	1.30	1.27	1.28	1.27	1.38

Source: Office of Child Support Enforcement.

TABLE 16.—NON-AFDC CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, FISCAL YEARS 1980–1984

State	1980	1981	1982	1983	1984
Alabama	0.00	0.00	0.00	0.09	0.30
Alaska	1.82	2.13	2.30	1.97	1.99
Arizona	1.81	1.62	2.69	1.55	1.84
Arkansas	.68	.59	.53	.62	.55
California	1.10	1.00	.98	.92	1.08
Colorado	.40[1]	1.28	1.65	.98	.70
Connecticut	1.99	1.78	1.67	1.56	1.65
Delaware	4.71	1.97	2.63	1.76	2.97
District of Columbia	.14	.16	.18	.22	.38
Florida	.16	.45	.42	.55	.69
Georgia	.18	.18	.20	.25	.37
Guam	.01	.20	.42	.42	.59
Hawaii	2.02	1.63	1.58	1.51	1.33
Idaho	.52	.42	.62	.41	.34
Illinois	.11	.11	.28	.80	.99
Indiana	.26	.36	.39	.46	.44
Iowa	.69	1.09	1.40	1.64	1.82
Kansas	.31	.42	.39	.41	.59
Kentucky	2.26	1.73	1.54	1.74	1.96
Louisiana	1.07	1.11	1.23	1.25	1.22
Maine	.38	.51	.56	.62	.73
Maryland	1.28	1.38	2.85	3.02	2.84
Massachusetts	1.16	1.03	1.41	1.61	1.74
Michigan	7.96	7.18	3.80	4.26	4.46
Minnesota	.72	.75	.90	1.11	1.33
Mississippi	.10	.12	.12	.12	.13
Missouri	.74	.82	.81	.73	1.11
Montana	.69	.62	.49	.52	.49
Nebraska	.30	3.35	3.70	4.62	4.68
Nevada	.98	1.04	1.02	1.09	1.39
New Hampshire	.08	.11	1.56	4.08	4.11
New Jersey	2.90	2.55	2.95	2.83	3.30
New Mexico	.34	.39	.47	.53	.62
New York	1.47	1.47	1.25	1.22	1.27
North Carolina	.28	.62	.85	.98	1.17
North Dakota	.43	.38	.45	.57	.70
Ohio	.06	.05	.05	.07	.08
Oklahoma	.19	.20	.21	.26	.35
Oregon	8.15	7.98	2.68	2.30	2.03
Pennsylvania	6.70	6.18	6.22	5.56	6.83
Puerto Rico	1.56	1.05	5.82	9.21	24.26
Rhode Island	.10	.09	.74	1.39	1.24
South Carolina	.39	.40	.61	.50	.52
South Dakota	.38	.53	.59	.56	.53
Tennessee	1.55	1.20	1.81	1.92	2.25
Texas	.19	.23	.42	.47	.83
Utah	.31	.32	.33	.29	.42
Vermont	.35	.29	.27	.21	.18
Virgin Islands	.46	.86	2.21	1.70	3.14
Virginia	.08	.17	.24	.24	.25
Washington	.85	1.06	1.09	.89	.89
West Virginia	.07	.06	.05	.05	.04
Wisconsin	.65	.81	.73	.80	1.04
Wyoming	.96	.88	.68	.61	.82
Nationwide total	1.88	1.82	1.61	1.66	1.90

Source: Office of Child Support Enforcement.

TABLE 17.—CHILD SUPPORT COLLECTIONS PER DOLLAR OF ADMINISTRATIVE EXPENDITURES, FISCAL YEAR 1984

State	Total collections/ total expenditures	AFDC collections/total expenditures	Non-AFDC collections/total expenditures
U.S. totals	3.29	1.38	1.91
Alabama	1.11	.82	.29
Alaska	2.39	.40	1.99
Arizona	2.18	.33	1.85
Arkansas	1.63	1.08	.55
California	2.31	1.23	1.08
Colorado	1.72	1.02	.70
Connecticut	3.36	1.71	1.65
Delaware	4.64	1.66	2.98
District of Columbia	.87	.49	.38
Florida	2.43	1.74	.69
Georgia	1.80	1.44	.36
Guam	1.52	.93	.59
Hawaii	2.37	1.03	1.34
Idaho	1.86	1.53	.33
Illinois	2.31	1.31	1.00
Indiana	3.29	2.84	.45
Iowa	5.69	3.87	1.82
Kansas	2.32	1.73	.59
Kentucky	2.75	.78	1.97
Louisiana	1.96	.74	1.22
Maine	3.75	3.01	.74
Maryland	4.15	1.31	2.84
Massachusetts	3.55	1.81	1.74
Michigan	6.86	2.40	4.46
Minnesota	2.94	1.61	1.33
Mississippi	1.76	1.62	.14
Missouri	2.64	1.52	1.12
Montana	2.27	1.78	.49
Nebraska	5.76	1.08	4.68
Nevada	1.91	.52	1.39
New Hampshire	5.18	1.07	4.11
New Jersey	4.55	1.25	3.30
New Mexico	1.71	1.10	.61
New York	2.03	.77	1.26
North Carolina	2.65	1.49	1.16
North Dakota	2.31	1.61	.70
Ohio	1.95	1.88	.07
Oklahoma	1.36	1.01	.35
Oregon	3.01	.98	2.03
Pennsylvania	8.31	1.48	6.83
Puerto Rico	24.61	.35	24.26
Rhode Island	3.35	2.11	1.24
South Carolina	2.49	1.97	.52
South Dakota	2.33	1.80	.53
Tennessee	3.17	.92	2.25
Texas	1.77	.94	.83
Utah	2.01	1.59	.42
Vermont	2.44	2.26	.18
Virgin Islands	3.52	.38	3.14
Virginia	1.74	1.50	.24
Washington	2.43	1.54	.89
West Virginia	1.52	1.48	.04
Wisconsin	3.25	2.21	1.04
Wyoming	2.58	1.76	.82

Source: Office of Child Support Enforcement.

TABLE 18.—INCENTIVE PAYMENTS TO STATES AND LOCALITIES FOR AFDC COLLECTIONS, FISCAL YEARS 1979–1984

[In thousands of dollars]

State	1979	1980	1981	1982	1983	1984
Alabama	$801	$493	$628	$704	$1,234	$1,578
Alaska	7	9	113	158	245	219
Arizona	79	116	148	157	198	254
Arkansas	247	260	385	412	672	634
California	13,868	11,640	9,296	13,891	13,102	30,730
Colorado	407	524	755	914	1,337	1,077
Connecticut	440	809	2,325	3,117	2,977	2,551
Delaware	23	97	300	294	341	420
District of Columbia	11	51	169	223	267	356
Florida	445	1,380	2,080	1,871	2,108	3,315
Georgia	384	577	1,078	1,195	1,685	1,783
Guam	403	0	2	2	4	3
Hawaii	234	215	497	413	524	706
Idaho	6	64	428	463	471	447
Illinois	414	985	1,936	2,527	2,807	2,896
Indiana	943	1,173	1,502	1,401	2,424	2,570
Iowa	1,456	1,752	2,106	2,458	3,184	2,580
Kansas	255	408	770	1,082	1,103	905
Kentucky	552	463	666	502	896	760
Louisiana	731	923	1,181	1,202	1,503	1,241
Maine	61	238	699	892	1,250	1,154
Maryland	662	1,396	2,131	2,052	3,896	2,849
Massachusetts	46	1,471	5,597	6,071	6,046	5,202
Michigan	12,815	11,806	11,550	13,717	13,408	14,522
Minnesota	1,834	3,369	2,737	4,383	3,826	3,454
Mississippi	2	20	59	95	310	223
Missouri	586	683	888	1,816	1,622	1,609
Montana	20	25	153	182	274	277
Nebraska	265	328	419	423	538	542
Nevada	74	97	125	186	224	175
New Hampshire	29	109	343	349	374	281
New Jersey	4,070	4,350	4,681	4,877	6,037	6,325
New Mexico	21	80	282	333	434	424
New York	8,787	7,499	7,163	8,193	10,308	8,248
North Carolina	1,021	1,253	1,724	1,898	2,801	2,528
North Dakota	191	186	219	251	284	276
Ohio	3,295	3,836	4,574	4,512	5,010	4,790
Oklahoma	42	119	326	387	547	672
Oregon	296	712	1,845	2,388	1,839	1,572
Pennsylvania	4,701	4,494	5,399	5,670	6,577	7,122
Rhode Island	4	10	73	92	127	136
Puerto Rico	53	170	505	552	619	570
South Carolina	328	283	354	512	698	994
South Dakota	45	52	118	183	378	249
Tennessee	493	576	568	835	782	772
Texas	188	491	1,114	959	1,609	1,602
Utah	596	744	1,238	1,509	1,791	1,397
Vermont	22	87	289	453	392	319
Virgin Islands	1	4	23	25	21	19
Virginia	262	693	1,130	1,502	1,728	1,414
Washington	202	927	2,817	3,236	3,878	3,419
West Virginia	31	34	389	369	492	463
Wisconsin	3,905	4,313	4,945	4,655	5,417	4,993
Wyoming	5	15	69	86	117	103
Nationwide total	66,255	72,410	90,911	106,632	120,738	133,718

Source: Office of Child Support Enforcement.

DEMOGRAPHIC TRENDS[1]

A sizable and growing proportion of American households are families that consist only of a mother and her children. Since 1970, the number of female-headed families has doubled; the number of two-parent families has declined slightly. As a result, by 1981 one out of every five children in the United States lived in a family where the mother was never married or the father was absent because of death, divorce, or separation. An unprecedented number of children live in single-parent homes, many without adequate or any support from the other parent. In 1981, 52 percent of all children under age 18 who were living in female-headed households had income below the poverty threshold. Further, among children, in families with a female householder (with no husband present), 25 percent were poor despite full-time work by the mother.

In 1981, about 12.6 million children lived with only one parent, 54 percent more than in 1970. Even though the total number of children under 18 years old in the United States declined from 69 million in 1970 to 63 million in 1981, the number of children affected by divorce, separation, and unmarried status of mother continued to rise. Twenty percent of all children lived in a one-parent family in 1981, compared with 12 percent in 1970. 1977 Census data indicate that about 8 percent of the children living with two parents were living with a stepparent.

Of the 12.6 million children living with one parent, 90 percent lived with their mothers and 10 percent with their fathers. Between 1970 and 1981 the number of children living with only their fathers grew by 61 percent (from 748,000 to 1,060,000). The proportion of all children in one-parent families who lived with their fathers rose from 1.1 percent to 1.9 percent.

The largest number of children in one-parent families had a parent who was divorced, followed by children whose parents were separated or never married. In 1981, of the children who lived only with their mothers, 43 percent had a mother who was divorced, 27 percent had a mother who was separated, and 16 percent had a mother who had never been married. The number of children with a divorced mother has doubled since 1970, but the number with a never-married mother tripled.

Child support awards

Of the 8.4 million women who had children present under the age of 21 from an absent father, 41 percent never were awarded child support rights (nor had an agreement to receive child support payments) and, thus, were dependent for income on sources other than the father. For poor mothers, the proportion without child support awards was even higher, 60 percent (see table 19).

---

[1] This section draws heavily on the Congressional Research Service report titled "Statistical Data on Single-Parent Families with Children," July 12, 1983.

TABLE 19.—CHILD SUPPORT AND ALIMONY PAYMENTS IN 1981 AND 1978

[Women as of spring 1982 and 1979. Child support payments for women with own children under 21 years of age present from an absent father: alimony payment for ever-divorced women]

Year, award and recipiency status of women	Child support payments		Alimony payments	
	Number (thousands)	Percent distribution	Number (thousands)	Percent distribution
1981				
Total	8,387	100.0	16,996	100.0
Awarded [1]	4,969	59.2	2,534	14.9
Supposed to receive payments in 1981	4,043	48.2	782	4.6
Not supposed to receive payments in 1981	926	11.0	1,752	10.3
Not awarded [1]	3,417	40.7	14,462	85.1
Supposed to receive payments in 1981	4,043	100.0	782	100.0
Actually received payments	2,902	71.8	527	67.4
Received full amount	1,888	46.7	340	43.5
Received partial amount	1,014	25.1	187	23.9
Did not receive payments	1,140	28.2	255	32.6
1978				
Total	7,094	100.0	14,334	100.0
Awarded [1]	4,196	59.1	2,052	14.3
Supposed to receive payments in 1978	3,424	48.3	760	5.3
Not supposed to receive payments in 1978	772	10.9	1,292	9.0
Not awarded [1]	2,898	40.9	12,282	85.7
Supposed to receive payments in 1978	3,424	100.0	760	100.0
Actually received payments	2,452	71.6	528	69.5
Received full amount	1,675	48.9	312	41.1
Received partial amount	777	22.7	216	28.4
Did not receive payments	971	28.4	232	30.5

[1] Award status as of spring 1982 and 1979.

Source: U.S. Bureau of the Census. Current Population Reports, Series P–23, No. 124. Child Support and Alimony: 1981 (advance report). Washington, U.S. Government Printing Office, 1983.

Almost 5 million women with children under age 21 (59 percent) had been awarded child support or had an agreement to receive child support payments, but only 4 million (48 percent) of the women were actually "supposed to receive" child support in 1981. The rights of the remaining 11 percent were no longer in force because the father who owed payments had died, the children had grown past the age of eligibility for payments, or because of another such reason.

Many of the women who were awarded child support payments did not receive the full amount they were due. In 1981, only about one-half (47 percent) of the 4 million women owed child support payments received the full amount, about 25 percent of the women received less than they were owed, and 28 percent received no payment at all. The average amount of child support for women who *received* payments in 1981 was $2,100, about 18 percent of their average total income. In 1978, the average amount of child support was $1,800, about 20 percent of the woman's income.

Of the 8.4 million women with children by an absent father, about 2.6 million (31 percent) had income below the poverty level. Of these women, only 31 percent (806,000) had agreements to receive child support and were due payments in 1981; 61 percent (495,000) actually received payments, while 39 percent did not. Another 9 percent had agreements but were not due payments in 1981, and the remaining 60 percent were never awarded payments.

For women who actually received child support payments in 1981, the amount of payment tended to be higher than average for divorced and separated women, white women, and women who had attended college. Those with lower than average payment amounts included never-married women, black women, and women who had not completed 12 years of school (see table 20).

Only 14 percent of women who had never married were awarded child support payments; compared with 81 percent of divorced women, 78 percent of remarried women and 42 percent of women who were separated. However, once payments were awarded, never-married women were almost as likely to receive them as other women. Of the 2.9 million who actually received child support payments in 1981, 52 percent were divorced, 30 percent were remarried, 14 percent were separated, and 4 percent were single (never married). The women who were never married received, on the average, the lowest amount of child support payments.

Black mothers and mothers of Spanish origin living apart from the father of their children were much less likely than their white counterparts to be awarded child support. Almost 70 percent of white mothers were awarded child support payments, compared with 34 percent of black mothers, and 44 percent of mothers of Spanish origin. Further, both black and Spanish-origin mothers received smaller payments, on the average, than did white mothers.

TABLE 20.—CHILD SUPPORT PAYMENTS AWARDED AND RECEIVED IN 1981—WOMEN WITH CHILDREN PRESENT, BY SELECTED CHARACTERISTICS

[Women with own children under 21 years of age present from an absent father as of spring 1982]

Characteristics of women	Total (thousands)	Percent awarded child support payments [1]	Supposed to receive child support in 1981			
			Total (thousands)	Actually received child support in 1981		
				Percent	Mean child support	Mean total money income
Total	8,387	59.2	4,043	71.8	$2,106	$11,747
CURRENT MARITAL STATUS						
Married [2]	2,201	77.8	1,298	66.7	1,909	9,081
Divorced	2,841	80.5	2,033	73.8	2,220	14,230
Separated	1,552	42.8	518	79.9	2,374	9,893
Widowed [3]	64	(B)	16	(B)	(B)	(B)
Never married	1,708	14.3	178	62.9	1,015	5,555
RACE AND SPANISH ORIGIN						
White	5,977	69.2	3,443	72.5	2,180	12,198
Black	2,283	33.8	546	67.0	1,640	8,849
Spanish origin [4]	628	43.9	232	65.9	2,068	8,887
YEARS OF SCHOOL COMPLETED						
Less than 12 years	2,386	42.9	762	58.9	1,677	6,869
High school: 4 years	3,971	63.2	2,048	71.7	1,909	10,819
College:						
1 to 3 years	1,385	67.9	802	77.6	2,309	13,255
4 years or more	644	76.6	431	84.0	3,089	18,973

[1] Award status as of spring 1982.

[2] Remarried women whose previous marriage ended in divorce.

[3] Widowed women those previous marriage ended in divorce.

[4] Persons of Spanish origin may be of any race.

Note.—B base less than 75,000.

Source: U.S. Bureau of the Census. Current Population Reports, Series P–23, No. 124. Child Support and Alimony: 1981 (Advance Report). Washington, U.S. Government Printing Office, 1983.

Mothers who were not high school graduates were less likely than average to be awarded child support, and their support payments were on the average much smaller than those of mothers who had completed more than 12 years of school.

In addition, the age of the woman was related to the awarding of child support payments. Women between the ages of 30 and 39 were the most likely to be awarded child support and the most likely to actually receive payments. However, women 40 years of age and older received, on average, higher support payments. Women under age 30 were the least likely to be awarded payments, and those who were awarded support received smaller payments, on average, than older women.

Another factor related to child support was the number of children the mother had with her in the absence of their father. Women with two children were most likely to receive support, but women with four children or more received higher support payments. This is not surprising, since one would expect the father to pay more in child support if he has four children, as compared with two children.

LEGISLATIVE CHANGES IN THE 98TH CONGRESS

In November 1983, the House of Representatives adopted H.R. 4325, the Child Support Enforcement Amendments, which had been developed by the Subcommittee on Public Assistance and Unemployment Compensation and approved by the Committee on Ways and Means. In August 1984, the amendments were signed into law. The new law strengthens the child support enforcement and paternity establishment program. It require States to implement effective enforcement tools and provides incentives to the States to make available services to both AFDC and non-AFDC families. The main provisions of the Child Support Enforcement Amendments of 1984 (P.L. 98-378) are summarized below:

1. Improved child support enforcement through requiring State laws and procedures.—States are required to enact laws establishing the following procedures with respect to their IV-D cases:

A. Mandatory wage withholding for all families (AFDC and non-AFDC) if support payments are delinquent in an amount equal to 1 month's support. States must also allow absent parents to request withholding at an earlier date.

B. Imposing liens against real and personal property for amounts of overdue support.

C. Withholding of State tax refunds payable to a parent of a child receiving IV-D services, if the parent is delinquent in support payments.

D. Making available information regarding the amount of overdue support owed by an absent parent, to any consumer credit bureau, upon request of such organization.

E. Requiring individuals who have demonstrated a pattern of delinquent payments to post a bond, or give some other guarantee to secure payment of overdue support.

F. Establishing expedited processes within the State judicial system or under administrative procedures for obtaining and enforing child support orders, and, at the option of the State, for determining paternity.

G. Notifying each AFDC recipient at least once each year of the amount of child support collected on behalf of that recipient.

H. Permitting the establishment of paternity until a child's 18th birthday.

I. At the option of the State, providing that child support payments must be made through the agency that administers the State's income withholding system if either the custodial or noncustodial parent requests that they be made in this manner.

2. Federal matching of administrative costs.—The Federal matching share is gradually reduced from 70 percent as follows: 68 percent in fiscal years 1988 and 1989, and 66 percent in fiscal year 1990 and each year thereafter.

3. Federal incentive payments.—The prior incentive formula which gave States 12 percent of their AFDC collections (paid for out of the Federal share of the collections) is replaced with a new formula that is designed to encourage States to develop programs that emphasize collections on behalf of both AFDC and non-AFDC families, and to improve program cost effectiveness. The basic incentive payment will be equal to 6 percent of the State's AFDC collections, and 6 percent of its non-AFDC collections. States may qualify for higher incentive payments, up to a maximum of 10 percent of collections, if their AFDC or non-AFDC collections exceed combined administrative costs for both AFDC and non-AFDC components of the program.

The total dollar amount of incentives paid for non-AFDC families may not exceed the amount of the State's incentive payment for AFDC collections for fiscal years 1986 and 1987. However, thereafter the incentive paid for non-AFDC collections will be capped at an amount equal to 105 percent of the incentive for AFDC collections in fiscal year 1988, 110 percent in fiscal year 1989, and 115 percent in fiscal year 1990 and any fiscal year thereafter.

4. Matching for automated management systems used in income withholding and other procedures.—The Act specifies that the 90 percent Federal matching rate that is currently available to States that elect to establish an automatic data processing and information retrieval system may be used, at the option of the State, for the development and improvement of the income withholding and other procedures required in the new law through the monitoring of child support payments, the maintenance of accurate records regarding the payment of child support, and the provision of prompt notice to appropriate officials with respect to any arrearages that occur. Also, the Act specifies that the 90 percent matching is available to pay for the acquisition of computer hardware.

5. Fees for services to non-AFDC families.—States will be required to charge an application fee for non-AFDC cases not to exceed $25. The amount of the maximum allowable fee may be adjusted periodically by the Secretary to reflect changes in administrative costs. The State may charge the fee against the custodial parent, pay the fee out of State funds, or recover the fee from the noncustodial parent.

In addition, at the option of the State, a late payment fee equal to between 3 and 6 percent of the amount of overdue support may be charged to the noncustodial parents of AFDC and non-AFDC families. The State may not take any action which would have the effect of reducing the amount of support paid to the child and will collect the fee only after the full amount of the support has been paid to the child. The late payment fee provision is effective upon enactment.

6. Continuation of support enforcement for AFDC recipients whose benefits are being terminated.—States must provide that families whose eligibility for AFDC is terminated due to the receipt of (or an increase in) child support payments will be automatically transferred from AFDC to non-AFDC status under the IV–D program, without requiring application for IV-D services or payment of a fee.

7. Special project grants to promote improvement in interstate enforcement.—The Secretary is authorized to make demonstration grants to States which propose to undertake new or innovative methods of support collection in interstate cases. The authorization is $7 million in FY 1985, $12 million in FY 1986, and $15 million in FY 1987 and years thereafter.

8. Periodic review of State programs; modification of penalty.—The Director of the Federal Office of Child Support Enforcement is required to conduct audits at least every 3 years to determine whether the standards and requirements prescribed by law and regulations have been met. Under the penalty provision, a State's AFDC matching funds must be reduced by an amount equal to at least 1 but no more than 2 percent for the first failure to comply substantially with the standards and requirements, at least 2 but no more than 3 percent for the second failure, and at least 3 but no more than 5 percent for the third and any subsequent consecutive failures.

9. Extension of sec. 1115 demonstration authority to the child support program.—The sec. 1115 demonstration authority is expanded to include the child support enforcement program under specified conditions.

10. Child support enforcement for certain children in foster care.—State child support agencies are required to undertake child support collections on behalf of children receiving foster care maintenance payments under title IV-E, if an assignment of rights to support to the State has been secured by the foster care agency. In addition, foster care agencies are required to take steps, where appropriate, to secure an assignment to the State of any rights to support on behalf of a child receiving foster care maintenance payments under the title IV-E foster care program.

11. Collection of spousal support.—Child support enforcement services must include the enforcement of spousal support, but only if a support obligation has been established with respect to the spouse, the child and spouse are living in the same household, and child support is being collected along with spousal support.

12. Modification in content of annual report by the Secretary.—The present annual report information requirements are expanded to include data needed to evaluate State programs.

13. Requirement to publicize the availability of child support services.—States must frequently publicize, through public service announcements, the availability of child support enforcement services, together with information as to the application fee for such services and a telephone number or postal address to be used to obtain additional information.

14. State commissions on child support.—The Governor of each State is required to appoint a State Commission on Child Support. The Commission must include representation from all aspects of the child support system including custodial and non-custodial parents, the IV-D agency, the judiciary, the Governor, the legislature, child welfare and social services agencies, and others.

Each State commission is to examine the functioning of the State child support system with regard to securing support and parental involvement for both AFDC and non-AFDC children, including but not limited to such specific problems as: (1) visitation; (2) establishment of appropriate objective standards for support; (3) enforcement of interstate obligations; and (4) additional Federal and State legislation needed to obtain support for all children.

15. Requirement to include medical support as part of any child support order.—The Secretary of Health and Human Services is required to issue regulations to require State agencies to petition to include medical support as part of any child support order whenever health care coverage is available to the absent parent at a reasonable cost. The regulations must also provide for improved information exchange between the State IV-D agencies and the medicaid agencies with respect to the availability of health insurance coverage.

16. Increased availability of Federal parent locator services to State agencies.—The prior law requirement that the States exhaust all State child support locator resources before they request the assistance of the Federal Parent Locator Service is repealed.

17. Extension of medicaid eligibility when support collection results in termination of AFDC eligibility.—If a family loses AFDC eligibility as the result (wholly or partly) of increased collection of support payments under the IV-D program, the State must continue to provide medicaid benefits for 4 calendar months beginning with the month of ineligibility. (The family must have received AFDC in at least 3 of the 6 months immediately preceding the month of ineligibility.)

18. Guidelines for determining support obligations.—Each State must develop guidelines to be considered in determining support obligations.

19. Availability of social security numbers for purposes of child support enforcement.—The absent parent's social security number may be disclosed to child support agencies both through the Federal Parent Locator Service and by the IRS.

20. Collection of overdue support from Federal tax refunds.—Current law requires the Secretary of the Treasury, upon receiving notice from a State child support agency that an individual owes past due support which has been assigned to the State as a condition of AFDC eligibility, to withhold from any tax refunds due that individual an amount equal to any past due support. The act extends this requirement to provide for withholding of refunds on behalf of non-AFDC families, under specified conditions.

21. Wisconsin child support intitiative.—The Secretary of HHS is required to grant waivers to the State of Wisconsin to allow it to implement its proposed child support initiative in all or parts of the State as a replacement for the AFDC and child support programs. The State must meet specified conditions and give specific guarantees with respect to the financial well-being of the children involved.

22. Sense of the Congress that State and local governments should focus on the problems of child custody, child support, and related domestic issues.—The act incorporates the language of S. Con. Res. 84 urging State and local govenments to focus on the vital issues of child support, child custody, visitation rights, and other related domestic issues that are within the jurisdictions of such governments.

Cost estimates for the major provisions of Public Law 98-378 appear below.

TABLE 21.—CBO ESTIMATES FOR CHILD SUPPORT ENFORCEMENT AMENDMENTS OF 1984 (PUBLIC LAW 98-378)

	Fiscal year—				
	1984	1985	1986	1987	Total
Alter incentive payments to States			15	15	30
Reduce Federal matching to 68 percent in fiscal year 1988; 66 percent in fiscal year 1990					0
Require application fees; optional late payment fees		−5	−10	−10	−25
Mandate State enforcement techniques		−15	−25	−25	−65
Require IRS tax intercept for non-AFDC families thru fiscal year 1989		25	20	10	155
Authorize funds for interstate projects		7	12	15	34
Provide Medicaid for 4 months for families losing AFDC due to child support collection through fiscal year 1988	5	25	25	30	85
Other provisions		15	20	10	45
Impact of H.R. 4325 on CSE case levels:					
CSE expenditures		10	30	55	95
Offsetting effects on public assistance		−5	−20	−30	−55
Total	5	57	67	70	199

Note: The cost of disregarding the first $50 of child support payments is shown in the AFDC section.

The Tax Reform Act of 1984 (Public Law 98-369) was also enacted during the 98th Congress and included two tax provisions pertaining to alimony and child support.

Under prior law, alimony was deductible by the payor and includible in the income of the payee. The new law revises the rules relating to the definition of alimony. Generally, only cash payments that will terminate on the death of the payee spouse will qualify as alimony. Alimony payments, if in excess of $10,000 per year, generally must be payable for at least 6 years and must not decline by more than $10,000. The prior law requirement that the payment be based on a legal support obligation has been repealed and payors are now required to furnish to the IRS the social security number of the payee spouse. A $50 penalty for failure to do so will be imposed. The provision is effective for divorce or separation agreements or orders executed after 1984.

The new law also provides that the $1,000 dependency exemption for a child of divorced or separated parents generally will be allocated to the custodial parent unless the custodial parent signs a written declaration that he or she will not claim the exemption for the year. Each parent may claim the medical expenses that he or she pays for the child, for purposes of computing the medical expense deduction. The provision is effective for taxable years beginning after 1984.

LEGISLATIVE CHANGES IN THE 97TH CONGRESS

The 97th Congress enacted child support legislation in 1981 and 1982 which had the effect of reducing Federal outlays, as shown below. Estimates for savings were made by the Congressional Budget Office.

Changes included in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) and the Tax Equity and Fiscal Responsibility Act of 1983 (Public Law 97-248) are:

TABLE 22.—CBO ESTIMATES FOR PUBLIC LAW 97-35 AND PUBLIC LAW 97-248

[In millions of dollars]

Provision	Fiscal year—				
	1982	1983	1984	1985	1986
Public Law 97-35:					
Collection of past-due child and spousal support from Federal tax refunds	−55	−70	−75	−75	−75
Collection of support for certain spouses	−20	−20	−20	−20	−20
Require absent parents to pay fee for services to non-AFDC families	0	0	0	0	0
Child support obligations owed on behalf of AFDC families not discharged in bankruptcy	−15	−18	−23	−29	−36
Require States to intercept unemployment benefits to enforce child support obligations	−17	−17	−17	−17	−17
Total	−107	−125	−135	−141	−148
	Fiscal year—				
	1983	1984	1985	1986	1987
Public Law 97-248:					
Give States the option of imposing a fee for services to non-AFDC families	−12	−16	−11	−13	−14
Require allotments from pay for support owed by members of the uniformed services	−7	−9	−10	−10	−10
Reimbursement of State agency in initial month of ineligibility for AFDC	−3	−4	−4	−5	−5
Reduce Federal incentive payments and Federal matching percentage	−40	−91	−101	−111	−116
Total	−62	−120	−126	−139	−145

APPENDIX G. FOOD STAMP PROGRAM

The food stamp program is designed to increase the food purchasing power of low-income households to a point where they can buy a nutritionally adequate low-cost diet. The theory behind the program is that a participating household is expected to be able to devote 30 percent of its countable [1] cash income to food, with food stamp benefits making up the difference between that amount and the sum determined to be sufficient to buy an adequate low-cost diet; i.e., the cost of the Department of Agriculture's "Thrifty Food Plan." Thus, an eligible household with no countable cash income receives the maximum monthly food stamp allotment for its size (benefits also vary by household size), while one with some countable cash income receives a lesser allotment—reduced from the maximum at the rate of 30 cents for each dollar of countable cash income. Food stamp benefits are available to nearly all households meeting the *income and liquid assets eligibility tests,* as long as certain household members fulfill work registration, job search, and other employment-related requirements. Unlike other welfare programs, the food stamp program has few *categorical* restrictions on eligibility, such as age, disability, or the presence of children in the household.

ADMINISTRATION AND FUNDING

The food stamp program operates in all 50 States, the District of Columbia, the Virgin Islands and Guam.[2] Through June 1982, it also operated in Puerto Rico. However, in July 1982, the program was legislatively terminated and replaced by a food aid program designed by the Commonwealth and federally funded at $825 million annually; this program grants cash benefits somewhat smaller than food stamp benefits to about 1.4 million persons.[3] The Federal Government, under the authority of the Food Stamp Act of 1977, establishes the rules that govern the program and, with certain minimal variations for Alaska, Hawaii and the territories, they are nationally uniform. States may opt to offer the program or not; but, if a State chooses to offer it, it must offer the program throughout the State.

---

[1] Not all of a household's income is actually counted when determining its food stamp benefits. In effect, this means that the program assumes households can spend about 20-25 percent of their *gross* cash income on food.

[2] The Commonwealth of the Northern Mariana Islands operates a specially designed variant of the food stamp program, with benefit and eligibility rules roughly comparable to those in the 48 States and the District of Columbia, though simplified and somewhat more restrictive. In addition, certain controls are placed on the use of food stamp benefits in order to encourage the production and purchase of local commodities.

[3] The Commonwealth of Puerto Rico's nutritional assistance program provides cash benefits to low-income residents using eligibility tests that are more restrictive than those of the food stamp program. Benefit levels are about 20 percent lower than regular food stamp benefit amounts.

At the Federal level, the program is administered by the U.S. Department of Agriculture's Food and Nutrition Service, which gives direction, through Federal regulations, to States and localities in their administrative tasks, is responsible for the printing and distribution of stamps to the States, and oversees participation by retail food stores and other food outlets. Other Federal involvement includes the Federal Reserve System, through which food stamps deposited in banks by food outlets are redeemed and converted to cash.[4] At the State and local levels, it is administered, along with the AFDC program, by welfare departments which are responsible for determining eligibility and issuing benefits.[5]

The Food Stamp Act provides for 100 percent Federal funding of food stamp benefits.[6] Federal funds also pay Federal administrative costs and 50 percent of most State and local administrative costs.[7] State and local costs associated with computerization and fraud control activities are eligible for 75 percent Federal funding. Administrative costs not borne by the Federal Government are shared by States and localities according to State law.

TABLE 1.—RECENT FOOD STAMP EXPENDITURES

[In millions]

Fiscal year	Benefit expenditures (Federal)	Administrative costs		Total
		Federal	State/local [1]	
1979	$6,480	$515	$388	$7,383
1980	8,685	510	381	9,576
1981	10,630	686	512	11,828
1982	[2] 10,408	717	565	11,690
1983	[3] 11,954	777	612	13,343
1984 (estimated)	[3] 11,526	974	832	13,332

[1] Estimated.

[2] Includes $206.5 million for Puerto Rico's nutritional assistance block grant, which began operation in the last quarter of fiscal year 1982.

[3] Includes $825 million for Puerto Rico's nutritional assistance block grant.

---

[4] Federally supported State employment service offices may also be involved if a State contracts with them to administer portions of the food stamp program's work registration and job search requirements.

[5] With the Department of Agriculture's approval, Indian tribes may administer the food stamp program on reservations and Indian lands. In certain cases, social security district offices may provide intake services for applicants who are also supplemental security income (SSI) recipients.

[6] In Puerto Rico, Federal funds pay for 100 percent of the benefit costs of its nutritional assistance program and 50 percent of any Commonwealth administrative costs—up to a ceiling of $825 million annually.

[7] As an incentive for improved administration, a State qualifies for a matching rate of 60 percent if it reduces its rate of erroneous payments below 5 percent of benefits issued and has very low rates of improper denials and under-issuances. In addition, a State may lose a portion or all of its Federal share of administrative expenses if it does not meet certain legislatively established targets for reducing its rate of erroneous payments.

ELIGIBILITY

The food stamp program imposes three major tests for eligibility: income limits, liquid assets limitations, and work registration and job search requirements. With certain exceptions, all households, including those receiving cash welfare, must pass all food stamp eligibility requirements.

The food stamp household

Generally, all individuals living together and purchasing food and preparing meals in common constitute a food stamp "household" and must apply together; the income and assets of all household members are aggregated in determining eligibility and benefits. However, individuals who live together may, in some cases, apply as separate "households" and have only their income and assets considered in determining their eligibility and benefits. The basic rule is that those who purchase food and prepare meals apart from the rest of their residential unit may apply separately. This rule is modified by: (1) a requirement that, except for elderly and disabled individuals,[8] parents, children, and siblings apply together without regard to the "purchase and prepare" rule; (2) a requirement that individuals living in treatment programs for drug addicts or alcoholics, certain small group homes for the disabled, and shelters for battered women and children be treated as separate households without regard to the "purchase and prepare" rule; and (3) an exception providing that elderly individuals who cannot purchase food and prepare meals because of a substantial disability[9] may apply as separate households, as long as the remainder of their residential unit has gross monthly income below certain federally prescribed levels.

Income

In determining eligibility for most households, the Food Stamp program looks at a household's monthly income.[10] Further, it considers both gross and countable monthly income.

Gross income includes all cash income of the household, except for energy assistance, the portion of student aid used for tuition and mandatory fees, reimbursements for expenses, and certain other income required to be disregarded by other Federal laws.

Countable income for households without an elderly or disabled member (see footnote 8) excludes from gross income the following: (1) an inflation indexed standard deduction now standing at $95 per month, regardless of household size;[11] (2) 18 percent of any earned income, in recognition of taxes and work expenses; (3) any work or training-related expenses for the care of a dependent; and (4) any shelter expenses, to the extent they exceed 50 percent of the countable income remaining after all other potential deductions and excluded expenses have been subtracted out. However, the total of excluded dependent-care and shelter expenses cannot exceed an inflation indexed ceiling now standing at $134 per month.[12]

---

[8] In the food stamp program, "elderly" is defined as age 60 or older. "Disabled" is defined as being in receipt of disability payments under social security or SSI programs, and includes certain severely disabled veterans and their disabled survivors.

[9] The definition of disability for this purpose is significantly more limited than the one generally used for food stamp purposes.

[10] At application, a household's current income is considered. However, for many households, their most recently reported prior month's income is used to set benefits during their period of eligibility. In some cases, annual income is converted to a monthly basis (e.g., where income for a whole year is actually received in a few months).

[11] Inflation indexing of the standand deduction occurs each October. Standard deduction amounts vary for Alaska, Hawaii, the Virgin Islands, and Guam; see table 2.

Countable income for households having an elderly or disabled member (see footnote 8) excludes from gross income the following: (1) an inflation indexed standard deduction now standing at $95 per month, regardless of household size (see footnote 11); (2) 18 percent of any earned income; (3) any work or training-relating expenses for the care of a dependent, up to an inflation indexed ceiling now standing at $134 per month (see footnote 12); (4) out-of-pocket medical expenses of elderly or disabled household members, to the extent they exceed $35 per month; and (5) any shelter expenses, to the extent they exceed 50 percent of the countable income remaining after all other potential deductions and excluded expenses have been subtracted out (with no limit).

TABLE 2.—FOOD STAMP DEDUCTION LEVELS

[Through September 1985]

	48 States and D.C.	Alaska	Hawaii	Virgin Islands	Guam
Monthly standard deduction	$95	$162	$134	$83	$190
Monthly ceiling on dependent care/shelter expense deductions	134	233	192	99	163

In order to qualify for food stamps, all households must have countable monthly income (as calculated with regard to whether or not they have elderly or disabled members) below the Federal poverty levels (see table 3). These poverty levels are adjusted each July to reflect inflation as measured by the Consumer Price Index. In addition, households without an elderly or disabled member must have gross monthly income below 130 percent of the Federal poverty levels (see table 3), also adjusted for inflation each July.

The current limits on countable and gross income in the 48 contiguous States, the District of Columbia, the Virgin Islands, and Guam[13] are as follows, through June 1985:

---

[12] Inflation indexing of this ceiling occurs each October. The ceiling varies for Alaska, Hawaii, the Virgin Islands, and Guam; see table 2.

[13] Limits are higher in Alaska and Hawaii, by 25 and 15 percent, respectively.

TABLE 3.—COUNTABLE AND GROSS INCOME ELIGIBILITY LIMITS

[Through June 1985]

Household size	Countable income limits (per month)	Gross income limits (per month)
1 person	$415	$540
2 persons	560	728
3 persons	705	917
4 persons	850	1,105
5 persons	995	1,294
6 persons	1,140	1,482
7 persons	1,285	1,671
8 persons	1,430	1,859
Each additional member	+145	+189

Assets

Eligible households must also have liquid assets not exceeding $1,500, or $3,000 in the case of households of two or more with an elderly member. This liquid assets limit excludes the value of a residence, a portion of the value of motor vehicles, business assets, household belongings and certain other resources.[14]

Work requirements

In order to retain household eligibility, non-working, able-bodied adult household members must register for, seek, and accept suitable employment, if offered. Exceptions are provided for those caring for dependents (disabled or under age 6), subject to another program's work requirements, working at least 30 hours per week or earning the minimum-wage equivalent, the limited number of post-secondary students who are otherwise eligible, residents of drug addiction or alcoholic treatment programs, and those under age 18 or age 60 or older. In addition, if a locality opts to operate a "workfare" program, nonworking, able-bodied adults may also be required to "work-off" their household's food stamp benefit.

Other limitations

Categorical eligibility restrictions include: (1) a ban on eligibility for households in which the primary wage-earner has voluntarily quit a job without good cause, for 90 days from the date of the voluntary quit; (2) a ban on eligibility for households containing striking members, unless eligible prior to the strike; (3) a ban on eligibility for most non-working post-secondary students without families; (4) a ban on eligibility for illegally or temporarily resident aliens and rules limiting eligibility for legally present aliens with sponsors; (5) a ban on eligibility for persons living in institutional settings, except for those in special small group homes for the disabled, persons living in drug addiction or alcoholic treatment programs, and persons in temporary shelters for battered women and children; and (6) a ban on eligibility for SSI recipients in California and Wisconsin.[15]

---

[14] Households in which all members are recipients of aid to families with dependent children (AFDC) are exempt from the food stamp assets test, if their income is below food stamp income standards, on the assumption that they have met a similar test in the AFDC program.

Under these eligibility rules, it is estimated that about 30 million persons are eligible for food stamps, nationwide, at any point during the year.

BENEFITS

Food stamp benefits are a function of household size, countable monthly income, the cost of purchasing food using the Department of Agriculture's "Thrifty Food Plan," and, in some cases, geographical location. Maximum monthly allotments equal the cost of the Agriculture Department's Thrifty Food Plan,[16] adjusted for household size and, in some instances, geographical location,[17] and indexed periodically for changes in food prices.[18] A participating household's actual monthly allotment is determined by subtracting, from the maximum for that household's size and location, an amount equal to 30 percent of its countable monthly income—on the assumption that it can afford to spend that much of its own income on food purchases, with the Food Stamp program supplementing its purchasing power to the extent necessary to buy an adequate low-cost diet. In determining benefits, the same countable income calculated when judging eligibility is used.

Maximum monthly food stamp allotments, from which 30 percent of a household's monthly countable income (after subtraction of the various potential deductions) is taken to determine a household's actual benefit, are as follows:

---

[15] Cash SSI payments have been increased in these States to include an estimated value for food stamp benefits.

[16] Beginning in October 1982, maximum food stamp allotments were equal to 99 percent of the cost of the Thrifty Food Plan. However, effective November 1984, they were increased to equal the full cost of the plan.

[17] Maximum allotments vary for Alaska, Hawaii, the Virgin Islands, and Guam, because of food costs that differ substantially from those in the 48 contiguous States and the District of Columbia.

[18] Indexed annually, each October, to reflect the change in food prices since the last adjustment.

TABLE 4.—MAXIMUM MONTHLY FOOD STAMP ALLOTMENTS

[Through September 1985]

Household size	48 States and D.C.	Alaska [1]	Hawaii	Virgin Islands	Guam
1 person	$79	$110	$121	$101	$116
2 persons	145	202	223	186	214
3 persons	208	290	319	267	306
4 persons	264	368	405	339	389
5 persons	313	437	481	403	462
6 persons	376	525	578	484	555
7 persons	416	580	639	535	613
8 persons	475	663	730	611	701
Each additional person	+59	+83	+91	+76	+88

[1] These allotment levels are for urban Alaska. Benefit levels for rural Alaska are increased by about 50 percent to account for higher food prices in rural areas.

Households with no countable income receive the maximum monthly allotment for their household size, and households with some countable income receive the maximum allotment reduced by 30 percent of their countable, not gross, income. Monthly benefits are expected to average $40–$45 per person in fiscal year 1985.

Minimum monthly allotments vary by household size, type of income, and the extent to which deductions from gross income are claimed. In some cases, income eligibility limits are exceeded before the allotment value is reduced to zero. In these cases, minimum benefits most often range from $10 to $80 per month. In other cases, the benefit is reduced to zero before income eligibility limits are exceeded.

Food stamp benefits are issued monthly. The local welfare agency must either deny eligibility or make food stamps available within 30 days of application and must provide food stamps without interruption if an eligible household reapplies in a timely manner. Households in immediate need because of little or no income and very limited cash assets are required to be treated on an expedited (5-day service) basis. Benefits are issued in three ways: (1) the welfare office may issue the eligible household an "Authorization to Participate" (ATP) document which it then takes to a bank, post office, or other issuing point to pick up its food stamp allotment; (2) the household may be asked to come into the welfare office to pick up its food stamp allotment; or (3) the welfare agency may mail the household its monthly allotment. In some pilot areas, benefits may be issued in cash to elderly or disabled households, or in standardized amounts to other (e.g., AFDC) cash welfare recipients.

USE OF FOOD STAMPS

Typically, participating households use their allotment in grocery stores that have been approved to accept food stamps. To be approved, a store must demonstrate that 50 percent of its food sales are staple foods. In addition, wholesalers may be approved to accept food stamps from retailers in certain instances, and meal service programs of various types may be approved to accept food stamps for meals. Once they have accepted food stamps, retailers, wholesalers, and approved meal service programs deposit them in banks, where they convert immediately to cash and are eventually redeemed, through the Federal Reserve System, by the U.S. Treasury.

Food stamps are issued in booklets and in several denominations, the lowest of which is $1. When change is necessary, all change of $1 or more must be in food stamps; change of 99 cents or less is in cash.

INTERACTION WITH CASH ASSISTANCE PROGRAMS

The food stamp program is intertwined with cash assistance programs in two ways: it is administratively linked to cash assistance at the State and local level and its recipient population is, by and large, made up of cash aid recipients.

At the State and local level, the food stamp program is, for most recipients, administered by the same welfare offices and personnel that administer, under different rules, cash assistance such as AFDC and General Assistance. For most SSI recipients, the Social Security Administration's offices provide intake services for the Food Stamp program. As a result, there is a continuing tension between the different sets of rules used by welfare and social security offices to determine eligibility and benefits.

Less than 20 percent of food stamp households rely solely on nongovernmental sources for their income, although nearly 40 percent have some income from these sources: earnings, private retirement income, alimony, and dividends and interest. The AFDC program contributes to the income of 34 percent of food stamp households, and for almost three-fourths of these households AFDC is their only source of income. Nearly 26 percent of food stamp households receive social security disability or retirement income, and about one-third of them rely entirely on that income. SSI payments are made to 20 percent of food stamp households, one-fourth of whom have no other income. State and local general assistance is received by 6 percent of food stamp households. And, veterans' benefits are made to about 3 percent of food stamp households. Thus, for most persons participating in the food stamp program, food aid represents a second or third form of government payment.

LEGISLATIVE ACTION: 1981–1982

The 97th Congress acted three times to hold down costs of the food stamp program and revise administrative rules: The Omnibus Budget Reconciliation Act of 1981; the Agriculture and Food Act of 1981; and the Omnibus Budget Reconciliation Act of 1982. The Congressional Budget Office (CBO) has estimated these actions will hold food stamp spending for fiscal year 1982 through fiscal year 1985 nearly $7 billion (or 13 percent) below what would have been spent under pre-1981 law: down $1.5 billion in fiscal year 1982; $1.3 billion in fiscal year 1983; $2 billion in fiscal year 1984; and $2.1 billion in fiscal year 1985. Although earlier estimates had indicated total 4-year savings approaching $8 billion, newly revised inflation and other economic assumptions dictated the revised estimate of about $7 billion.

In addition to numerous changes in administrative rules and actions aimed at reducing fraud and abuse, the cost-saving measures enacted in the 97th Congress consisted primarily of:

Delaying various inflation indexing adjustments that would have increased benefits (for example, no benefit indexing occurred in fiscal year 1982);

Reducing the maximum benefit guarantee to 99 percent (rather than 100 percent) of the cost of purchasing food in the Agriculture Department's Thrifty Food Plan, thereby slightly reducing potential benefits to all recipients (a loss of between $1 and $4 per household per month in the fiscal year 1983 inflation indexing of benefits, for example);

Reducing first-month benefits by prorating them according to the date when a household applies or reapplies;

Changing the rules governing how benefit calculations are rounded off;

Placing a gross income eligibility ceiling of 130 percent of the Federal poverty levels on all households except those with elderly or disabled members;

Replacing the food stamp program in Puerto Rico with an $825-million-a-year nutritional assistance block grant;

Reducing benefits slightly for those with earned income by counting more of their income;

Substantially eliminating eligibility for most strikers and postsecondary students;

Reducing benefits based on estimated household shelter expenses for some recipients;

Allowing States or localities to set up food stamp "workfare" programs;

Setting specific targets for States to meet in reducing the rate of erroneous benefit payments, with penalties for States that do not meet their targets; and

Requiring that many food stamp recipients report monthly on their income and other circumstances, and that States use a recent *prior* month's income in determining benefits rather than projecting benefits based on *current* income.

These actions did *not* cause a direct reduction in benefits for most food stamp households, although they delayed or lowered benefit increases scheduled under previous law. However, some 1 million persons did lose eligibility, and recipients are losing some benefits because of the implementation of rules governing treatment of shelter expenses and earnings, the monthly reporting/prior-month accounting system, certain new administrative rules, and limited funding for Puerto Rico block grant.

LEGISLATIVE ACTION: 1983–1984

The 98th Congress made few significant revisions to food stamp law in 1983 and 1984:

—In Public Law 98–204, some of the Federal requirements for monthly reporting and retrospective budgeting (MRRB) in administering benefits for food stamp recipients were loosened and the Agriculture Department's authority to waive MRRB requirements was greatly increased;

—In the Deficit Reduction Act of 1984 (Public Law 98–369), the ability of State welfare agencies to verify recipients' income and assets through the use of Internal Revenue Service information on unearned income was expanded, and recouping overissued benefits by "intercepting" Federal income tax refunds was permitted; and

—In Public Law 98–473, an across-the-board 1-percent benefit increase was enacted, effective November 1984.

TABLE 5.—HISTORICAL FOOD STAMP STATISTICS

Fiscal year	Total Federal spending (in millions) [1]	Average monthly participation (in millions of persons)	Average monthly benefits (per person)	4-person maximum monthly allotment [2]
1972 [3]	$1,909	11.1	$13.50	$108
1973	2,208	12.2	14.60	112
1974	2,845	12.9	17.60	116
1975 [4]	4,599	17.1	21.40	150
1976	5,582	18.5	23.90	162
Transition quarter [5]	1,325	17.3	24.40	166
1977	5,399	17.1	24.70	166
1978	5,585	16.0	26.80	170
1979 [6]	6,913	17.7	30.60	182
1980	9,211	21.1	34.40	204
1981	11,353	22.4	39.50	209
1982 [7]	11,113	21.7	39.20	233
1983 [8]	12,759	[9] 23.0	[10] 43.00	[10] 253
1984 (est.) [8]	12,375	[9] 22.3	[10] 42.80	[10] 253

[1] Outlays, including spending for benefits and administration.

[2] At the beginning of the fiscal year.

[3] The first fiscal year in which benefit and eligibility rules were, by law, nationally uniform and indexed for inflation.

[4] The first fiscal year in which food stamps were available nationwide.

[5] July through September 1976.

[6] The fiscal year in which the food stamp purchase requirement was eliminated, promoting increased participation among eligible households.

[7] Includes $206.5 million in funding for Puerto Rico's nutritional assistance block grant.

[8] Includes $825 million in funding for Puerto Rico's nutritional assistance block grant.

[9] Includes 1.4 million persons receiving cash nutritional aid in Puerto Rico.

[10] Does not reflect benefits in Puerto Rico.

Note: Allotment levels were indexed for inflation annually through calendar 1973, and semi-annually from January 1974 through calendar 1980. Since 1980, allotment levels have been increased in January 1981, October 1982, October 1983, October 1984, and November 1984.

Compiled by the Congressional Research Service.

Section 10. Earned Income Tax Credit

The earned income tax credit (EITC), which was added to the Internal Revenue Code in 1975, is intended to give a cash income supplement to working parents with relatively low earnings. The earned income tax credit is a refundable credit. Thus, for tax filers whose income is too low to owe income taxes, or whose tax liability is smaller than their credit, the Internal Revenue Service makes a direct payment of the credit.

ELIGIBILITY

The credit is available to taxpayers who have children and whose adjusted gross income and earned income are both less than $11,000. Married couples must be eligible for a dependency exemption for a child, and unmarried taxpayers must maintain a household for a child. A dependency exemption generally is available only if the taxpayer provides more than half the support of the child, and a taxpayer is considered to maintain a household only if over half the household expenses are furnished by that individual. For this purpose, AFDC benefits are considered not to be provided or furnished by the taxpayer. Thus, if more than half of an individual's or couple's income is from AFDC or another source other than their own income or resources, the earned income credit may not be available.

To receive a credit, a person must file an income tax return at the end of the tax year and, if desired, may file an eligibility certificate with his employer in order to receive advance payments of the credit with his paycheck.

BENEFITS

The EITC equals 11 percent of the first $5,000 of earnings, including net earnings from self-employment, and thus may not exceed $550 per family. The size of the credit is unrelated to the number of a worker's dependents. Between earnings of $5,000 and $6,500, the maximum credit of $550 is received. For each dollar of adjusted gross income (or, if higher, earned income) above $6,500 the credit is reduced by 12.22 cents. As a result, it is not available after adjusted gross income equals or exceeds $11,000. Table 1 below shows the amount of the earned income tax credit by amount of earned income.

TABLE 1.—AMOUNT OF EITC BY EARNED INCOME LEVEL [1]

Amount of wages and self-employment income	Earned income tax credit
0	0
$1,000	$110
$2,000	220
$3,000	330
$4,000	440
$5,000	550
$6,000	550
$7,000	489
$8,000	367
$9,000	244
$10,000	122
$11,000	0

[1] Assumes adjusted gross income does not exceed earned income.

INTERACTION WITH AFDC AND FOOD STAMPS

The treatment of EITC for purposes of AFDC and food stamp benefit computations has varied since inception of the credit. When enacted in 1975, EITC was not considered income in determining AFDC and food stamp benefits, and the credit could not be received on an advance basis. Beginning in January 1979 and prior to October 1981, EITC was treated as earned income when actually received. Receipt of the credit on an advance basis was authorized in July 1979.

From October 1981 to September 1984, the amount of the EITC was treated as earned income and was imputed to the family even though it may not have been actually received from the employer as an advance payment. In the Deficit Reduction Act of 1984, the EITC is treated as earned income when it is received.

Under Federal rules, the State has the option of treating a tax refund as either unearned income in the month of receipt or as a resource. However, the amount of the EITC embodied within the tax refund is treated as earned income in the month the refund is received. If the refund is treated as unearned income, it would reduce the amount of the AFDC benefit on a dollar-for-dollar basis.

Food stamp rules do not have a similar requirement. In determining the food stamp benefit, the EITC would be counted as earned income for the month of receipt, if received on an advance basis or as an asset if received in a lump sum at the end of the year.

DATA

For calendar year 1983, earned income tax credits totaled $1.786 billion, of which about $1.287 billion represented Treasury payments in excess of current year tax liability and $0.499 billion offset tax liability. Some 6.3 million families received the credit, which averaged $286 per family. Of total recipients, almost 5 million received direct EITC payments in the form of U.S. Treasury checks. Table 2 below shows the total amount of earned income credits received for each of the calendar years since the inception of the program, the number of recipient families, the amount of the credits received as Treasury checks and the average amount of the credit received per family.

TABLE 2.—TOTAL AMOUNT OF EITC, NUMBER OF FAMILIES RECEIVING THE CREDIT AND THE BUDGET OUTLAYS FOR CALENDAR YEARS 1975 THROUGH 1986

Calendar year to which credit applies	Total amount of EITC (in millions)	Number of families who received EITC (in thousands)	"Refunded" portion of credit [1] (in millions)	Average EITC per family
1975	$1,250	6,215	$900	$201
1976	1,295	6,473	890	200
1977	1,127	5,627	880	200
1978	1,048	5,192	801	202
1979	2,052	7,135	1,395	288
1980	1,986	6,954	1,370	286
1981	1,912	6,717	1,278	285
1982	1,775	6,395	1,222	278
1983 [2]	1,786	6,250	1,287	286
1984 [3]	1,643	NA	1,183	NA
1985 [3]	1,947	NA	1,460	NA
1986 [3]	1,791	NA	1,343	NA

[1] This is the portion of the credit that exceeds tax liability, and it is treated as a budget outlay. The rest of the credit is classified as a "tax expenditure." All these credits were paid in the following year until 1979, when advance payments of the credit were permitted, by addition to the worker's paycheck.

[2] Preliminary.

[3] Projection.

NA—Not available.

1984 Legislative Action

1. Increase in EITC.—The Deficit Reduction Act of 1984 increased the credit to its current level. From 1979 through 1984, the credit had been 10 percent of the first $5,000 of earned income. Further, the maximum credit amount of $500 had been reduced by 12.5 cents for each dollar of adjusted gross income (or, if greater, earned income) in excess of $6,000. Thus, the credit had not been available to families with incomes greater than $10,000.

The changes to the earned income credit will reduce revenues by $4 million in 1985, $116 million in 1986, $105 million in 1987, $98 million in 1988 and $90 million in 1989, and increase outlays by $9 million in 1985, $257 million in 1986, $237 million in 1987, $217 million in 1988, and $200 million in 1989.

2. Counting of EITC for AFDC benefit calculations.—Under prior law, States had to assume that an individual received the earned income tax credit on an advance basis regardless of when or if it was received. The act requires States to count the EITC only when actually received.

This provision was estimated to increase AFDC costs by $8 million, $3 million, and $3 million for fiscal years 1985 to 1987, respectively, and reduce food stamp outlays by $4 million, $1 million, and $1 million during fiscal years 1985 to 1987, respectively.

Section 11. SSI Program Description

The Supplemental Security Income (SSI) program is a federally administered income assistance program authorized by title XVI of the Social Security Act. Established by the 1972 amendments to the Act (Public Law 92-603) and begun in 1974, SSI provides monthly cash payments in accordance with uniform, nationwide eligibility requirements to needy aged, blind and disabled persons. The SSI program replaced the former Federal grants to the States for old-age assistance, aid to the blind and aid to the permanently disabled. These grants continue in Guam, Puerto Rico and the Virgin Islands. SSI, however, operates in the Northern Mariana Islands.

BASIC ELIGIBILITY

To qualify for SSI payments, a person must satisfy the program criteria for age, blindness or disability. The aged are defined as persons 65 years and older. The blind are individuals with 20/200 vision or less with the use of a correcting lens in the person's better eye, or those with tunnel vision of 20 degrees or less. Disabled individuals are those unable to engage in any substantial gainful activity by reason of a medically determined physical or mental impairment expected to result in death or that has lasted, or can be expected to last, for a continuous period of at least 12 months. Additionally, a child under age 18 who has an impairment of comparable severity with that of an adult may be considered disabled.

As explained later, disabled SSI recipients who lose eligibility for regular SSI benefits and for medicaid because their earnings have exceeded the "substantial gainful activity" earnings test, but who continue to be medically disabled, can continue to receive cash assistance and medicaid under certain conditions.

SSI BENEFIT STANDARDS

Individuals and couples applying for or receiving SSI benefits are determined to be eligible if their countable income does not exceed certain income benefit standards.

Regular Federal SSI benefit standard

The regular Federal SSI benefit standard for an individual for 1985 is $325 a month and $488 for a couple. As is discussed later, most States supplement the regular Federal SSI benefit standard. The result is a combined regular Federal SSI/State supplementation benefit standard against which countable income is compared in determining eligibility and benefit amount. However, many States limit their supplementation to certain categories of individuals based on specific indicators of need—especially special housing needs. In December 1983, over 366,000 persons, or 9 percent of all SSI recipients, were eligible for benefits only because State supplementation increased the benefit standard.

The regular Federal SSI benefit standards are indexed to the Consumer Price Index (CPI) and by the same percentage as Social Security benefits. This occurs through a reference in the SSI law to the Social Security cost-of-living adjustment (COLA) provision. Prior to the Social Security Amendments of 1983 (Public Law 98-21), the SSI and Social Security cost-of-living increases occurred in benefits paid in July. Public Law 98-21 delayed the Social Security and SSI COLA's from July 1983 to January 1984. However, in lieu of a COLA increase in the SSI benefit standard in July 1983, the regular Federal SSI benefit standard was increased in July 1983 by $20 a month for an individual and $30 a month for a couple. Table 1 shows the regular Federal SSI benefit standard from the beginning of the SSI program until the present time.

Living in the household of another

The SSI law provides that if an SSI applicant or recipient is "living in another person's household and receiving support and maintenance in-kind from such person", the value of such in-kind assistance is presumed to equal one-third of the regular Federal SSI benefit standard. The Federal SSI benefit standard applicable to such individual or couple is two-thirds of the regular Federal SSI benefit standard. As shown in table 1, the Federal SSI benefit standard for those determined to be living in the household of another is $216.67 for an individual and $325.34 for a couple. These amounts are increased annually since they are two-thirds of the regular Federal SSI benefit standard.

By regulation, the Social Security Administration has established certain criteria for determining whether this benefit standard should be applied. If an individual actually owns or rents the living quarters or contributes their pro rata share to the household's expenses, this lower benefit standard does not apply. In June 1984, 5.6 percent, or 211,000 SSI recipients, had their benefits determined on the basis of this "one-third reduction" benefit standard. Two-thirds of those recipients were receiving benefits on the basis of disability (see table 2).

Of the 26 States that supplement the regular Federal SSI benefit standard, 12 States provide the same amount of supplementation for those whose Federal SSI benefit amount is determined on the basis of the "one-third reduction" Federal standard. Six States provide a higher State supplementation for such recipients and in eight States the amount of State supplementation is less.

Medicaid institution/personal needs allowance

When an individual enters a hospital or other medical institution in which a major part of a bill is paid by the Medicaid program, his monthly SSI benefit standard is reduced to $25, beginning with the first full calendar month the individual is in such institution. This amount is intended to take care of small personal expenses, with the cost of maintenance and medical care being provided through other programs. The annual cost-of-living increase for SSI does not apply to the $25 Federal benefit standard and it has not been increased since SSI began in 1974, but some States supplement the $25 Federal payments. Approximately 207,000, or 5.6 percent, of SSI recipients received benefits in September 1984 on the basis of this benefit standard. For those individuals whose income from non-SSI sources exceeds the $25 benefit standard (including those who were receiving some SSI because their Social Security benefits are less than the SSI benefit standard), Medicaid regulations require States to allow such individuals (and other non-SSI Medicaid eligibles) to retain no less than $25 a month of their income as a "personal needs allowance" when their income is applied, along with Medicaid reimbursement, to pay for their institutional medical care. Approximately 600,000 additional individuals in nursing homes are affected by this requirement. Approximately 16 States have exercised their option to supplement this Federal SSI benefit standard. Approximately 27 States allow some or all of those individuals affected by the Medicaid personal needs allowance regulations to retain more than $25 a month.

TABLE 1.—FEDERAL SSI BENEFIT STANDARDS

[In dollars]

	Eligibility status					
	Single		Couple		Medicaid facilities	Essential person
	Own household	Another household	Own household	Another household		
Jan. 1974–June 1974	140.00	93.34	210.00	140.00	25.00	70.00
July 1974–June 1975	146.00	97.34	219.00	146.00	25.00	73.00
July 1975–June 1976	157.70	105.14	236.60	154.74	25.00	78.90
July 1976–June 1977	167.80	111.87	251.80	167.87	25.00	84.00
July 1977–June 1978	177.80	118.54	266.70	177.80	25.00	89.00
July 1978–June 1979	189.40	126.27	284.10	189.40	25.00	94.80
July 1979–June 1980	208.20	138.80	312.30	208.20	25.00	104.20
July 1980–June 1981	238.00	158.67	357.00	238.00	25.00	119.20
July 1981–June 1982	264.70	176.47	397.00	264.67	25.00	132.60
July 1982–June 1983	284.30	189.54	426.40	284.27	25.00	142.50
July 1983–Dec. 1983	304.30	202.88	456.40	304.27	25.00	152.50
Jan. 1984–Dec. 1984	[1]314.00	209.34	[1]472.00	314.67	25.00	157.00
Jan. 1985–Dec. 1985	325.00	216.67	488.00	325.34	25.00	163.00

[1] Cost-of-living adjustments to Federal SSI benefit levels are rounded to the next lower whole dollar beginning with the increase effective January 1984.

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

Another benefit standard affecting some persons involves federal payments to an individual who was transferred to SSI from a former State program of aid to the aged, blind and disabled. These payments are increased by $163 monthly to take into account an "essential person" living in the household. An essential person is generally an ineligible spouse or relative whose needs were considered in determining the requirements of an eligible individual under the former State program but who is not eligible for SSI.

Some States have categories of State supplementation similar to the "essential persons" category for individuals transferred from the pre-SSI program.

TABLE 2.—NUMBER AND PERCENTAGE DISTRIBUTION OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY AND FEDERAL SSI BENEFIT STANDARD/LIVING ARRANGEMENT, SEPTEMBER 1984

Federal benefit standard/living arrangement	Total	Reason for eligibility		
		Aged	Blind	Disabled
Total number	4,020,401	1,547,937	80,133	2,392,331
Total percent	100.0	100.0	100.0	100.0
Regular Federal SSI benefit standard	89.1	91.1	89.5	87.8
Living in the household-of-another Federal SSI benefit standard	5.6	4.4	6.5	6.4
Medicaid institution/personal needs allowance Federal SSI benefit standard	5.2	4.5	3.9	5.6

INCOME DISREGARDS

Under the program, $20 of monthly income from virtually any source (such as social security benefits, but *not* need-tested income such as veterans' pensions) is disregarded. In addition, the first $65 of monthly earned income plus one-half of remaining earnings are disregarded. Table 3 shows the maximum income that an individual and couple can have and still remain eligible for Federal SSI benefits under the regular Federal SSI benefit standards—taking into account these income disregards.

SSI law requires that an SSI applicant or recipient apply for all other benefits for which they are eligible. For example, in June 1984, 71 percent of the aged, 36 percent of the disabled, and 38 percent of the blind receiving SSI were also Social Security recipients.

For the blind and disabled only, the cost of an approved plan to achieve self-support is also disregarded. SSI recipients who receive benefits on the basis of blindness may also disregard work related expenses. For the disabled, only impairment related work expenses may be disregarded. Income received in sheltered workshops and work activity centers is considered earned income and qualifies for earned income disregards.

The value of in-kind assistance is counted as income unless such in-kind assistance is specifically disregarded by statute. Generally, in-kind assistance provided by or under the auspices of a federally assisted program, or by a State or local government (for example, nutrition, food stamps, housing or social services), will not be counted as income. As described earlier, if an SSI applicant or recipient is living in the household of another and receiving in-kind support and maintenance from him, the SSI benefit standard for such an individual will be reduced by one-third of the Federal SSI benefit standard. By regulation, the Social Security Administration has also provided that the value of in-kind support and maintenance received by those determined to be living in another's household is presumed to be equal to no more or less than one-third of the Federal SSI benefit standard. The individual can rebut this presumption. If it is determined that the value is less than the one-third amount, benefits are instead reduced dollar for dollar up to one-third of the Federal benefit standard after the initial standard unearned income disregard of $20 a month.

In legislation enacted in April 1983, in-kind support and maintenance provided by a private nonprofit organization to aged, blind, or disabled individuals must be disregarded under the SSI program if the State determines that the assistance is provided on the basis of need. Another exclusion from income is certain types of assistance provided to help meet home energy needs. Assistance provided to an aged, blind, or disabled individual for the purpose of meeting home energy costs either in cash or in kind and which is furnished by a home heating oil or gas supplier or by a utility company is to be disregarded. Assistance for home energy costs provided in-kind by a private nonprofit organization is also excluded. These provisions are effective through October 1, 1987.

As countable income (total income minus disregarded income) increases, a recipient's SSI payment level decreases. Eligibility for SSI ends when countable income equals the Federal benefit standard plus the amount of applicable State supplementation.

TABLE 3.—MAXIMUM INCOME FOR ELIGIBILITY FOR FEDERAL SSI BENEFITS, 1985

	Receiving only Social Security		Receiving only wage income	
	Monthly	Annually	Monthly	Annually
Individual	$345	$4,140	$735	$8,820
Couple	508	6,096	1,061	12,732

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

RESOURCES

SSI eligibility is restricted to qualified persons who have counted assets of less than $1,600, or less than $2,400 in the case of married couples. The Deficit Reduction Act of 1984 (P.L. 98-369) increased the countable assets limit by $100 a year for an individual and $150 a year for a couple, beginning in calendar year 1985 and each year through calendar year 1989. Prior to January 1, 1985, the assets limit for an individual was $1,500 and $2,250 for a couple. The limit will be $2,000 for an individual and $3,000 for a couple in 1989 and thereafter.

In determining assets, a number of items are not included, such as the individual's home; and, within reasonable limits set by the

Secretary of Health and Human Services: Household goods, personal effects, an automobile, and a burial space for the individual, spouse, and members of the immediate family. Regulations place a limit of $2,000 in equity value on excluded household goods and personal effects and exclude the first $4,500 in current market value of an auto (100 percent of the auto's value if it is used for medical treatment or employment or has been modified for use by a handicapped person). Assets, tools and other property essential to self-support of the blind or the disabled are also excluded.

The cash value of life insurance policies with face values of $1,500 or less are not counted toward the $1,600 or $2,400 countable resources limit. The entire cash value of life insurance policies with face values greater than $1,500 is counted toward the countable resources limit. As an alternative to the life insurance exclusion, an SSI recipient may have excluded from countable resources up to $1,500 in separately identifiable funds set aside for burial expenses. However, term insurance or irrevocable burial trusts will also serve to reduce the $1,500 burial fund limit.

Current law provides that an individual (or eligible spouse) who gives away or sells any nonexcludable resource for less than fair market value for the purpose of establishing SSI or Medicaid eligibility will have any uncompensated value of that resource (the difference between fair market value at the time of the transfer and the amount received for the resource) counted toward the resources limit of $1,600 for an eligible individual and $2,400 for a couple for a period of 24 months from the date of transfer.

DEEMING OF INCOME AND RESOURCES

The income of an ineligible spouse who lives with an adult SSI applicant or recipient is considered in determining the eligibility and amount of payment to the individual. The income of the parents of a disabled child under the age of 18 is also considered in determining the eligibility and payment for the child. The law also provides that such deeming of income and resources shall occur "except to the extent determined by the Secretary to be inequitable under the circumstances".

By regulation, the Secretary of HHS has provided that in determining the amount of the income of the ineligible spouse or parent to be deemed to the SSI applicant or recipient, the needs of the spouse or parent and other children in the household are taken into account. In addition, the SSI earned income disregards are applied in determining the amount of earned income to be deemed to the SSI applicant or recipient. For example, if the countable income of an ineligible spouse exceeds the difference between the SSI benefit standard for an individual and a couple in that State (including State supplementation) the excess is deemed available to the SSI applicant or recipient.

For example, in a State with no State supplementation the deeming procedure would work as follows for an ineligible spouse earning $500 per month living with an eligible individual with $180 of social security benefits:

Earned income of ineligible individual	$500.00
Less $65	−65.00

Less one-half of remaining earnings ($435)	−217.50
Countable income	217.50
Less difference between SSI payment standard for an individual and couple	163.00
Amount deemed to eligible individual	54.50

Thus, the benefit for the eligible individual will be $110.50 [$325.00−($180.00 less $20 exclusion)−$54.50]. Without deeming, the individual would have received $165.00 [$325.00−($180.00 less $20 exclusion)]. The $20 exclusion can only be used once and is first applied to unearned income.

Under the Secretary's regulations, that portion of the resources of the spouse or parent are deemed to a recipient which are in excess of the amount that would be allowed if the spouse or parent were applying for SSI payments. There are 54,000 spouse-to-spouse and 17,000 parent-to-child cases of deeming currently in which the deeming reduces the benefit. This does not take into account the number of individuals who are not eligible because of the deeming provision.

In determining the eligibility of aliens applying for SSI, the income and resources of their sponsors are considered. After allowances for the needs of the sponsors and his family, the remainder is deemed available for the support of the alien applicant for a 3-year period after entry into the United States. This provision does not apply to those who become blind or disabled after entry, to refugees, and to persons granted political asylum.

Restrictions on SSI Eligibility of Residents of Public Institutions

An individual who is a resident or an inmate of a public institution is ineligible for SSI unless the institution is a facility approved for medicaid payments, is receiving such payments on behalf of the person, and these payments represent more than 50 percent of the cost of services provided by the facility to the person. However, SSI payments may be made to persons in publicly operated community residences serving no more than 16 persons. In addition, an amendment adopted in 1983 provides that temporary residents of public emergency shelters can receive SSI payments for up to 3 months in any 12-month period.

State Supplementation

State supplementary payments are required by law to maintain income levels of former public assistance recipients transferred to the Federal SSI program. In January 1985, approximately 9,400 recipients were receiving payments based in part or solely because of this provision. States have the option to choose to supplement the Federal SSI benefit standard for both former public assistance recipients and other SSI recipients. At the present time, all but eight States and jurisdictions provide some form of optional State supplementation. Those are: Arkansas, Georgia, Kansas, Mississippi, Northern Mariana Islands, Tennessee, Texas, and West Virginia. States may elect to administer their supplementary payments themselves or may contract with the Social Security Administration for Federal administration. Seventeen States and the District of Columbia have contracted with the Social Security Administration to administer the State optional supplementation program. Since the SSI program began in 1974, six States have shifted from Federal to State administration of their optional State supplementation program.

Approximately 43 percent of the SSI recipients receive a State supplement. For those SSI recipients, other than those receiving a State supplement because they are living in some type of group living arrangement, the amount of State supplement ranges from $1.70 a month to $252 a month for an individual. At present, 26 States and the District of Columbia supplement the Federal standard for individuals living independently.

Table 18 shows the number of persons receiving State administered payments in 1984 and federally administered SSI payments by State for November 1984.

Table 4 for individuals living independently and table 5 for couples illustrate the maximum potential payment from Federal SSI, State supplements and food stamps for individuals, with no income, by State. These tables assume that the elderly individual or couple receive an excess shelter deduction of $125 and an excess medical cost deduction of $6 in the food stamp program. Approximately 65 percent of the elderly in the food stamp program take a shelter deduction, and it is estimated that approximately 16 percent of the elderly are allowed a deduction of $125 or more. For those individuals or couples with no shelter deduction, the monthly food stamp and combined benefit amount would be reduced by $40.00. There is no ceiling on the excess shelter deduction for aged or disabled persons.

TABLE 4.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED INDIVIDUALS LIVING INDEPENDENTLY, JANUARY 1985 [1]

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Alabama	$325.00	$52.00	$377.00	$4,524.00
Alaska	586.00	54.00	640.00	7,680.00
Arizona	325.00	52.00	377.00	4,524.00
Arkansas	325.00	52.00	377.00	4,524.00
California	504.00	[3] 0.00	504.00	6,048.00
Colorado	383.00	34.00	417.00	5,004.00
Connecticut*	[4] 497.10	10.00	507.10	6,085.20
Delaware	325.00	52.00	377.00	4,524.00
District of Columbia	340.00	47.00	387.00	4,644.00
Florida	325.00	52.00	377.00	4,524.00
Georgia	325.00	52.00	377.00	4,524.00
Hawaii	329.90	121.00	450.90	5,410.80
Idaho	[5] 403.00	28.00	431.00	5,172.00
Illinois*	[6] 360.23	41.00	401.23	4,814.76

TABLE 4.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED INDIVIDUALS LIVING INDEPENDENTLY, JANUARY 1985 [1]—Continued

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Indiana	325.00	52.00	377.00	4,524.00
Iowa	325.00	52.00	377.00	4,524.00
Kansas	325.00	52.00	377.00	4,524.00
Kentucky	325.00	52.00	377.00	4,524.00
Louisiana	325.00	52.00	377.00	4,524.00
Maine	335.00	49.00	384.00	4,608.00
Maryland	325.00	52.00	377.00	4,524.00
Massachusetts	453.82	13.00	466.82	5,601.84
Michigan	351.70	43.00	394.70	4,736.40
Minnesota	[7] 360.00	41.00	401.00	4,812.00
Mississippi	325.00	52.00	377.00	4,524.00
Missouri	325.00	52.00	377.00	4,524.00
Montana	325.00	52.00	377.00	4,524.00
Nebraska	386.00	33.00	419.00	5,028.00
Nevada	361.40	41.00	402.40	4,828.80
New Hampshire	[8] 352.00	43.00	395.00	4,740.00
New Jersey	356.25	42.00	398.25	4,779.00
New Mexico	325.00	52.00	377.00	4,524.00
New York	385.91	33.00	418.91	5,026.92
North Carolina	325.00	52.00	377.00	4,524.00
North Dakota	325.00	52.00	377.00	4,524.00
Ohio	325.00	52.00	377.00	4,524.00
Oklahoma	385.00	34.00	419.00	5,028.00
Oregon	326.70	52.00	378.70	4,536.00
Pennsylvania	357.40	42.00	399.40	4,792.80
Rhode Island	378.80	35.00	413.80	4,965.60
South Carolina	325.00	52.00	377.00	4,524.00
South Dakota	340.00	47.00	387.00	4,644.00
Tennessee	325.00	52.00	377.00	4,524.00
Texas	325.00	52.00	377.00	4,524.00
Utah	335.00	49.00	384.00	4,608.00
Vermont	[9] 378.00	36.00	414.00	4,968.00
Virginia	325.00	52.00	377.00	4,524.00
Washington	[10] 363.30	40.00	403.30	4,839.60
West Virginia	325.00	52.00	377.00	4,524.00
Wisconsin	424.70	[3] 0.00	424.70	5,096.40
Wyoming	345.00	46.00	391.00	4,692.00

*Data obtained from State by CRS.

[1] In most States these maximums apply also to blind or disabled SSI recipients who are living in their own households; but some States provide different benefit schedules for each category.

[2] For one-person households, maximum food stamp benefits from Nov. 1984 through Sept. 1985 are $79 in the 48 contiguous States and the District of Columbia, $110 in Alaska (urban areas, benefit levels in rural Alaska are increased by about 50 percent to account for higher food prices in such areas), and $121 in Hawaii. For the 48 contiguous States and D.C., the calculation of benefits assumes: (1) a "standard" deduction of $95 per month, (2) an excess shelter deduction of $134 per month (the maximum allowable for nonelderly, nondisabled households); and (3) an excess medical expense deduction of $6 monthly (estimated from 1978 medical expense information). If smaller excess shelter costs were assumed, food stamp benefits would be smaller. For Alaska and Hawaii, higher deduction levels were used, as provided by law ($395 and $326, respectively, for combined standard and excess shelter allowance).

[3] SSI recipients in California and Wisconsin are ineligible for food stamps. These States provide increased cash aid in lieu of stamps.

[4] Estimated maximum paid for aged individual with shelter cost of $200 monthly. State decides benefits on a case-by-case basis. Estimate provided by State official. (Assumed shelter cost produces only $22 excess shelter deduction for food stamp calculation.)

[5] State disregards $20 of SSI payment in determining the State supplementary payment.

[6] Estimated usual maximum paid for aged individual. Assumes shelter allowance of $97. State decides benefits on case-by-case basis. Estimate provided by State official.

[7] Payment level for Hennepin County. State has 10 geographic payment levels.

[8] State disregards $13 of an individual's income in determining the supplementary payment. The State supplementary payment amount is rounded to next higher dollar.

[9] State has two geographic payment levels—highest are shown in table.

[10] Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of data from the Social Security Administration (except for Connecticut and Illinois).

TABLE 5.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED COUPLES LIVING INDEPENDENTLY, JANUARY 1985 [1]

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Alabama	$488.00	$69.00	$557.00	$6,684.00
Alaska	859.00	64.00	923.00	11,076.00
Arizona	488.00	69.00	557.00	6,684.00
Arkansas	488.00	69.00	557.00	6,684.00
California	936.00	[3] 0.00	936.00	11,232.00
Colorado	[4] 766.00	10.00	776.00	9,312.00
Connecticut*	607.00	33.00	640.00	7,680.00
Delaware	488.00	69.00	557.00	6,684.00
District of Columbia	518.00	60.00	578.00	6,936.00
Florida	488.00	69.00	557.00	6,684.00
Georgia	488.00	69.00	557.00	6,684.00
Hawaii	496.80	173.00	669.80	8,037.60
Idaho	[5] 534.00	55.00	589.00	7,068.00
Illinois*	[6] 521.70	58.00	579.70	6,956.40
Indiana	488.00	69.00	557.00	6,684.00
Iowa	488.00	69.00	557.00	6,684.00
Kansas	488.00	69.00	557.00	6,684.00
Kentucky	488.00	69.00	557.00	6,684.00
Louisiana	488.00	69.00	557.00	6,684.00
Maine	503.00	64.00	567.00	6,804.00

TABLE 5.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED COUPLES LIVING INDEPENDENTLY, JANUARY 1985 [1]—Continued

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Maryland	488.00	69.00	557.00	6,684.00
Massachusetts	689.72	10.00	699.72	8,396.64
Michigan	528.00	57.00	585.00	7,020.00
Minnesota	[7] 554.00	49.00	603.00	7,236.00
Mississippi	488.00	69.00	557.00	6,684.00
Missouri	488.00	69.00	557.00	6,684.00
Montana	488.00	69.00	557.00	6,684.00
Nebraska	577.00	42.00	619.00	7,428.00
Nevada	562.46	46.00	608.46	7,301.52
New Hampshire	[8] 509.00	62.00	571.00	6,852.00
New Jersey	513.36	61.00	574.36	6,892.32
New Mexico	488.00	69.00	557.00	6,684.00
New York	564.03	46.00	610.03	7,320.36
North Carolina	488.00	69.00	557.00	6,684.00
North Dakota	488.00	69.00	557.00	6,684.00
Ohio	488.00	69.00	557.00	6,684.00
Oklahoma	608.00	33.00	641.00	7,692.00
Oregon	488.00	69.00	557.00	6,684.00
Pennsylvania	536.70	54.00	590.70	7,088.40
Rhode Island	589.74	38.00	627.74	7,532.88
South Carolina	488.00	69.00	557.00	6,684.00
South Dakota	503.00	64.00	567.00	6,804.00
Tennessee	488.00	69.00	557.00	6,684.00
Texas	488.00	69.00	557.00	6,684.00
Utah	508.00	63.00	571.00	6,852.00
Vermont	[9] 584.50	40.00	624.50	7,494.00
Virginia	488.00	69.00	557.00	6,684.00
Washington	[10] 525.40	57.00	582.40	6,988.80
West Virginia	488.00	69.00	557.00	6,684.00
Wisconsin	649.00	[3] 0.00	649.00	7,788.00
Wyoming	528.00	57.00	585.00	7,020.00

---

*Data obtained from State by CRS.

[1] In most States these maximums apply also to blind or disabled SSI recipients who are living in their own households; but some States provide different benefit schedules for each category.

[2] For two-person households, maximum food stamp benefits from Nov. 1984 through Sept. 1985 are $145 in the 48 contiguous States and the District of Columbia, $202 in Alaska (urban areas, benefit levels for rural Alaska are about 50 percent higher to account for high food prices in such areas), and $223 in Hawaii.

For the 48 contiguous States and D.C., the calculation of benefits assumes: (1) a "standard" deduction of $95 per month, (2) an excess shelter deduction of $134 per month (the maximum allowable for nonelderly, nondisabled households); and (3) an excess medical expense deduction of $6 monthly (estimated from 1978 medical expense information). If smaller excess shelter costs were assumed, food stamp benefits would be smaller. For Alaska and Hawaii, higher deduction levels were used, as provided by law ($395 and $326, respectively, for combined standard and excess shelter allowance).

[3] SSI recipients in California and Wisconsin are ineligible for food stamps. These States provide increased cash aid in lieu of stamps.

[4] Estimated maximum paid for aged couple with shelter cost of $200 monthly. State decides benefits on a case-by-case basis. Estimate provided by State official.

[5] State disregards $20 of SSI income in determining the State supplementary payment amounts.

[6] Estimated usual maximum paid for aged couple. Assumes shelter allowance of $97. State decides benefits on case-by-case basis. Estimate provided by State official.

[7] Payment level for Hennepin County. State has 10 geographical payment levels.

[8] State disregards $20 of a couple's SSI income in determining supplementary payment amounts. State supplementary payment amounts are rounded to next higher dollar.

[9] State has two geographic payment levels—highest levels are shown in table.

[10] Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of data from the Social Security Administration (except for Connecticut and Illinois).

STATE SSI SUPPLEMENT LEVELS OVER TIME

Throughout the entire period from July 1975 to January 1985, 23 States have continously provided supplemental SSI payments to aged individuals living independently, and 21 States continuously supplemented SSI payments to aged couples living independently. Four States increased their SSI supplements faster than inflation.

Among the States which have supplemented SSI payments for aged individuals living independently the median has declined by 41 percent in constant dollars from July 1975 to January 1985. During this period Colorado, Michigan, New Hampshire, and Oklahoma were the only States which increased supplements faster than inflation (see table 19).

The District of Columbia, South Dakota, Utah, and Wyoming all began supplementing SSI payments to individuals between 1975 and 1980.

Among the States which have supplemented SSI payments for aged couples living independently, only Alaska, Colorado, Michigan, and Oklahoma have kept their supplemental increases equivalent to or higher than inflation. Overall, the median benefit for those States supplementing benefits has increased from $56 in 1975 to $66 in 1985. However, in constant dollars, this represents a 40-percent decline in purchasing power (see table 20).

STATE SUPPLEMENTATION FOR SPECIAL HOUSING NEEDS

A significant number of the aged, disabled and blind population receiving SSI cannot live alone because of mental or physical limitations and have a need for housing which involves services beyond room and board. These services often include supervision for daily living and protective services for the mentally retarded, chronically mentally ill, or the frail or confused elderly. Such nonmedical supervised and/or group living arrangements generally cost more than the Federal SSI benefit needs standard of $325 a month and often more than the combined Federal and SSI State supplementation for those classified as living independently.

All but 8 of the 52 States and jurisdictions have Federal or State administered State supplementation which is specifically directed at covering the additional cost of providing housing in a protective, supervised, or group living arrangement.

These living arrangements are identified by a variety of terms including: adult foster care homes; domiciliary care homes; congregate care; group home for the mentally retarded and a variety of other terms. The amount of supplementation by the State also varies a great deal. For example, in the State of Maryland under a State-administered supplementation program, a "special services" group living facility has a State supplementation of $540 a month in addition to the Federal benefit level of $325 for a combined monthly cost of $865. In other States the State supplementation is less than $50 a month. However, in some States, the cost of supervised group living care is also partially met by direct State funding of the staff. In a number of States, the State makes payments for nonmedical group care directly to private residential facilities based on a rate negotiated by the State with each facility. In such cases, there is often a "personal needs allowance" payment made directly to or on behalf of the residents of the facility.

COMPARISON OF SSI PAYMENT LEVELS TO POVERTY THRESHOLDS

Table 6 compares the Federal SSI benefit for a single individual to the poverty threshold (census). Both the poverty threshold and the benefit level are indexed to the Consumer Price Index. (The percentage increase for the poverty threshold and the SSI benefit increase varies slightly because of a difference in the method of calculation.) As a result of Public Law 98-21, the SSI benefit levels were increased by $20 per month for individuals and $30 per month for couples in July 1983. They were further increased by 3.5 percent in January 1984. This explains why SSI benefits, in relation to the poverty level, increased to approximately 75 percent in 1984 and 1985 compared to 71 percent in the 1975 to 1982 period.

For individuals receiving unearned income such as Social Security, the amount of benefits is $240 per year more than the SSI benefit. Because the $240 amount is not indexed, the percent of poverty is approximately the same in 1985 as in 1975 despite the SSI benefit increases.

Table 6 presents the same information for a couple. The SSI benefit for a couple is approximately 90 percent of the poverty threshold. The combined SSI plus Social Security benefit (or other unearned income) decreased from 92 percent to 89 percent of the poverty threshold from 1975 to 1982 but as a result of Public Law 98-21 the percentage became 94 percent in 1984.

TABLE 6.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE INDIVIDUALS RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS: 1975 TO 1985

	Calendar year				
	1975	1980	1982	1984	1985
Poverty threshold	2,572	3,941	4,630	[1] 4,980	[2] 5,194
Federal SSI benefits:					
Dollars per year	1,822	2,677	3,294	3,768	3,900

TABLE 6.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE INDIVIDUALS RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS: 1975 TO 1985—Continued

	Calendar year				
	1975	1980	1982	1984	1985
Percent of poverty	70.8	67.9	71.1	75.7	75.1
Federal SSI and social security:					
Dollars per year	2,062	2,917	3,534	4,008	4,140
Percent of poverty	80.2	74.0	76.3	80.5	79.7
Federal SSI, social security, and food stamps: [3]					
Dollars per year	2,350	3,345	3,906	4,294	4,440
Percent of poverty	91.4	84.9	84.4	86.2	85.5

[1] Preliminary census estimate.

[2] Factor used to update 1985 poverty threshold (1.043).

[3] In computing the food stamp benefit for 1975, average deductions among all elderly households are assumed. For later years, the applicable standard deduction plus average shelter and medical deductions among all elderly households is assumed.

Source: Congressional Research Service.

TABLE 7.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE COUPLES RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS: 1975 TO 1985

	Calendar year				
	1975	1980	1982	1984	1985
Poverty threshold	3,232	4,954	5,840	6,280	6,550
Federal SSI benefits:					
Dollars per year	2,734	4,016	4,940	5,664	5,856
Percent of poverty	84.6	81.1	84.6	90.2	89.4
Federal SSI and social security:					
Dollars per year	2,974	4,256	5,180	5,904	6,096
Percent of poverty	92.0	85.9	88.7	94.0	93.1
Federal SSI, social security, and food stamps: [3]					
Dollars per year	3,430	4,906	5,792	6,393	6,600
Percent of poverty	106.1	99.0	99.2	101.8	100.8

[1] Preliminary Census estimate.

[2] Factor used to update 1985 poverty threshold (1.043).

[3] In computing the food stamp benefit for 1975, average deductions among all elderly households are assumed. For later years, the applicable standard deduction plus average shelter and medical deductions among all elderly households is assumed.

Source: Congressional Research Service.

SSI PROGRAM COSTS

Table 8 shows the program costs for the SSI program in fiscal year 1984. In fiscal year 1984, approximately $8.1 billion of federally financed payments were made to the aged, blind, and disabled. The Federal Government's cost of administering the program was approximately $1 billion. Federal SSI benefits and the cost of administering the program are financed from general funds from the Treasury. The Social Security Administration also administers the payment of approximately $1.8 billion of State financed State supplementary payments. An additional $300 million was paid out in State administered State supplementation payments.

In fiscal year 1984, of the $8.1 billion of Federal SSI benefits, approximately $5.8 billion, or 71 percent, went to those who were eligible on the basis of disability; $2.2 billion, or 27 percent, to the aged; and $183 million, or 2 percent, to the blind.

In addition to the fact that a higher percent of the total SSI population were eligible on the basis of disability rather than age, the higher percent of Federal SSI payments being for the disabled is also due to the fact that only 36 percent of the disabled have other income in the form of Social Security benefits compared to 71 percent of the aged.

Table 9 shows the total expenditures for the SSI program in each State, including not only the federally administered Federal and State supplementation payments but also the State administered State supplementation payments.

TABLE 8.—SSI FEDERAL PROGRAM COST BY ACTIVITIES

[In millions of dollars]

Program by activities	1983	1984	1985 (estimate)	1986 (estimate)
Direct program:				
Federal benefit payments	7,852	7,521	8,556	8,936
Comparable benefit level [1]	(7,220)	(8,185)	(8,556)	(8,936)
Federal hold-harmless payments	13	8	0	0
Beneficiary services [2]	8	85	6	7
Payments to the trust funds for administrative costs [3]	830	864	898	919
Demonstration	0	1	3	([4])
Federal fiscal liability	20	20	49	28
Total Federal direct program	8,724	8,498	9,511	9,890

[1] The 1983 total includes 13 months of benefit payments; the 1984 total reflects 11 months of benefit payments; and 1985 and 1986 reflect 12 months of payments. The comparable level is based on 12 benefit months in each year.

[2] Includes rehabilitation services provided to blind and disabled individuals, and monitoring of treatment of drug addicts and alcoholics.

[3] Includes cost of administering Federal SSI payments and Federally administered State supplementation. These are not available separately.

[4] Less than 0.5 million.

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 9.—SUPPLEMENTAL SECURITY INCOME: TOTAL PAYMENTS, FEDERAL SSI PAYMENTS, AND FEDERALLY ADMINISTERED AND STATE ADMINISTERED STATE SUPPLEMENTARY PAYMENTS, FISCAL YEAR 1984 [1]

[In thousands]

State	Total	Federal SSI	State supplementation	
			Federally administered	State administered
Total	$10,192,676	[2] $8,142,171	[3] $1,764,452	$286,053
Alabama	275,422	261,057		14,365
Alaska	20,177	7,984		[5] 12,193
Arizona	78,323	76,278		[5] 2,045
Arkansas	136,068	136,048	20	
California	2,238,685	1,076,568	1,162,117	
Colorado	110,251	63,591		[5] 46,660
Connecticut	90,704	58,891		31,813
Delaware	15,637	15,215	422	
District of Columbia	41,935	37,912	4,023	
Florida	422,507	416,647	([6])	5,860
Georgia	310,531	310,531	([6])	
Hawaii	27,533	24,011	3,522	
Idaho	20,280	16,530		[5] 3,750
Illinios	329,076	297,708	([6])	[5] 31,368
Indiana	92,139	91,266	([6])	873
Iowa	50,455	49,014	1,441	([4])
Kansas	40,248	40,218	30	
Kentucky	224,108	213,981		10,127
Louisiana	276,001	275,936	65	([2])
Maine	39,275	34,448	4,827	
Maryland	119,782	116,704	84	2,994
Massachusetts	276,331	169,266	107,065	
Michigan	308,957	250,141	58,816	
Minnesota	68,677	58,319	([6])	10,358
Mississippi	230,384	230,346	38	
Missouri	175,621	168,675		6,946
Montana	15,164	14,392	772	
Nebraska	32,003	26,626		5,377
Nevada	16,575	14,225	2,350	
New Hampshire	20,531	12,397		8,134
New Jersey	235,438	192,947	42,491	
New Mexico	56,578	56,347		[5] 231
New York	982,478	766,548	215,930	
North Carolina	315,180	283,356		31,824
North Dakota	12,859	11,331		1,528

TABLE 9.—SUPPLEMENTAL SECURITY INCOME: TOTAL PAYMENTS, FEDERAL SSI PAYMENTS, AND FEDERALLY ADMINISTERED AND STATE ADMINISTERED STATE SUPPLEMENTARY PAYMENTS, FISCAL YEAR 1984 [1]—Continued

[In thousands]

State	Total	Federal SSI	State supplementation	
			Federally administered	State administered
Ohio	283,768	283,763	5	(4)
Oklahoma	151,108	119,831		31,277
Oregon	67,760	53,124		14,636
Pennsylvania	403,593	341,237	62,356	
Rhode Island	35,162	27,045	8,117	
South Carolina	174,868	171,695	(4)	3,173
South Dakota	15,625	15,167	28	430
Tennessee	268,022	268,022	(4)	
Texas	483,945	483,945		
Utah	18,178	17,413		765
Vermont	21,781	15,589	6,192	
Virginia	181,721	172,575		[5] 9,146
Washington	116,048	97,906	18,142	
West Virginia	99,015	99,015		
Wisconsin	159,742	93,760	65,982	
Wyoming	3,975	3,794	(6)	[5] 181
Other areas:				
Northern Mariana Islands	1,829	1,829		

[1] Includes payments due in October 1983, but actually paid on September 30, 1983, i.e., fiscal year 1983.

[2] Federal payments of $1.0 million not distributed by State.

[3] Payments reduced by $383,000 to reflect returned checks and overpayment refunds. Also includes $7.5 million of Federal contribution to State supplementation (Wisconsin) under the "hold harmless" provision.

[4] Data not available for optional State administered State supplementation in Iowa, Louisiana, and Ohio.

[5] Data partly estimated.

[6] Data not shown; adjustments total exceed the actual amounts paid during the year.

Table 10 illustrates the total amount of Federal and State benefit payments from calendar year 1970 to 1984. From 1970 to 1973, these were the benefits under the old-age assistance, aid to the blind, and aid to the permanently and totally disabled programs. From 1984 to 1986, these are estimated payment projections. In calendar year 1984, Federal benefit payments totaled $8.273 billion and State payments of $2.088 billion.

TABLE 10.—FEDERAL AND STATE BENEFIT PAYMENTS UNDER SSI AND PRIOR ADULT ASSISTANCE PROGRAMS, CALENDAR YEARS 1970–84 AND ESTIMATED FEDERAL PAYMENTS, FISCAL YEARS 1985–1986

[In millions of dollars]

Calendar year [1]	Total	Federal payments	Total State payments	State payments	
				Federally administered	State administered
1970	2,939	1,801	1,138		
1971	3,206	(2)	(2)		
1972	3,392	1,993	1,398		
1973	3,418	1,987	1,432		
1974	5,246	3,833	1,413	1,264	149
1975	5,878	4,314	1,565	1,403	162
1976	6,066	4,512	1,554	1,388	166
1977	6,306	4,703	1,603	1,431	172
1978	6,552	4,881	1,671	1,491	180
1979	7,075	5,279	1,796	1,590	207
1980	7,941	5,866	2,074	1,848	226
1981	8,593	6,518	2,076	1,839	237
1982	8,981	6,907	2,074	1,798	276
1983	9,404	7,423	1,981	1,711	270
1984 [3]	10,361	8,273	2,088	1,790	298
1985 [4]		8,556		1,680	
1986 [4]		8,936		1,700	

[1] 1970–1973 refers to Old-Age Assistance, Aid to the Blind and Aid to the Permanently and Totally Disabled; 1974–1983 refers to Supplemental Security Income; and 1984–1985 refers to Estimated Federal SSI payments.

[2] Data not available.

[3] Partly estimated.

[4] Fiscal year estimated payments.

Source: Office of Research, Statistics, and International Policy, and Office of Financial Resources, Social Security Administration.

NUMBER OF RECIPIENTS: 1970–1986 (PROJECTED)

Table 11 illustrates the changes in the number of individuals receiving assistance under the federally administered SSI program and prior programs. The total number of individuals receiving assistance was 3.1 million in 1970; this increased to 4.3 million in 1975 and declined to 3.9 million in 1982 and 1983. As a result of the 1983 Social Security Amendments, it is expected to increase to 4.1 million in 1986 and 4.2 million in 1988. The number of aged receiving SSI has declined sharply since 1975 from 2.3 million (or 2.5 million if disabled over age 65 are counted as aged) to 1.5 million individuals in 1984. The number of disabled receiving assistance increased sharply from 1.0 million in 1970 to 2.0 million in 1975. The number of disabled is projected to be around 2.7 million individuals in 1988.

The number of individuals receiving only State SSI benefits steadily declined from 1978 to 1983 but is expected to increase slightly from 1984 to 1988.

TABLE 11.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS, 1974–1988; AND ADULT ASSISTANCE UNDER PRIOR PROGRAMS, 1970–1973

[In thousands]

Year [1]	Total [2]	Aged [3]	Blind or disabled		Federal SSI [6]	State supplemental only
			Total [4]	65 and older [5]		
1970	3,098	2,082	1,016			
1971	3,172	2,024	1,148			
1972	3,182	1,934	1,248			
1973	3,173	1,820	1,353			
1974	3,996	2,286	1,710	(7)	(8)	(8)
1975	4,314	2,307	2,007	201	3,893	421
1976	4,236	2,148	2,088	249	3,799	437
1977	4,238	2,051	2,187	302	3,778	460
1978	4,217	1,968	2,249	344	3,755	462
1979	4,150	1,872	2,278	386	3,687	462
1980	4,142	1,808	2,334	419	3,682	460
1981	4,019	1,678	2,341	443	3,590	429
1982	3,858	1,549	2,309	462	3,473	384
1983	3,901	1,515	2,386	485	3,590	311
1984	3,926	1,518	2,405		3,609	317
1985 [9]	4,042	1,545	2,497		3,708	334
1986 [9]	4,083	1,503	2,580		3,743	340
1987 [9]	4,119	1,464	2,655		3,775	344
1988 [9]	4,150	1,428	2,722		3,802	348

---

[1] Data are for December of each year except for 1984–1988 where the data is for March.

[2] All persons with Federal SSI payments and/or Federally administered State supplementation; 1974–1988. For 1970–1973 the total is the number of recipients under the Old-Age Assistance and Aid to the Blind and Aid to the Permanently and Totally Disabled Programs.

[3] For 1970–1973, this column is the number of recipients under the Old-Age Assistance program.

[4] For 1970–1973, this column is the number of recipients under the Aid to the Blind and Aid to the Permanently and Totally Disabled program.

[5] For 1974–1983, this is the number of age 65 and older individuals who first received SSI benefits because of being blind or disabled.

[6] All persons with Federal SSI payments include those receiving Federal payments only or both Federal SSI and Federally administered State supplementation.

[7] Data not available for December 1974. In January 1974, there were 87,000 blind and disabled recipients aged 65 and older.

[8] Data not available.

[9] For 1985 to 1988, these data are projections under current law.

Source: Office of Research, Statistics, and International Policy, and Office of Financial Resources, Social Security Administration.

ELIGIBILITY OF SSI RECIPIENTS FOR MEDICAID

States have three options as to how they treat SSI recipients in relation to Medicaid eligibility. Section 1634 of SSI law allows the Social Security Administration to enter into agreements with States to automatically cover all SSI recipients with Medicaid eligibility. SSI recipients are not required to make a separate application for Medicaid under this arrangement. Thirty States have chosen this option, and SSI recipients in these States account for approximately 75 percent of all SSI recipients nationwide.

Under the second option, States elect to automatically provide Medicaid eligibility for all SSI recipients, but only if the recipient completes a separate application with the State agency which administers the Medicaid program. The six States of Alaska, Idaho, Kansas, Mississippi, Nevada, and Oregon, affecting about 2.5 percent of SSI recipients nationwide, have elected this option.

The third and most restrictive option is known as the "209(b)" option, under which States may impose Medicaid eligibility criteria which are more restrictive than SSI criteria, so long as the criteria chosen were part of the State's approved Medicaid State plan in January 1972. 209(b) States may be more restrictive in defining blindness or disability, or more restrictive in their financial requirements for eligibility. Many States use this option to impose stricter transfer of assets or relatives' responsibility requirements than SSI. However, aged, blind, and disabled Medicaid applicants must be allowed to spend-down in 209(b) States, regardless of whether or not the State has a medically needy program. Fourteen States use the 209(b) option for Medicaid coverage of aged, blind, and disabled SSI recipients. About 22 percent of the SSI recipient population nationwide lives in these 209(b) States. The 14 States that use this option are:

Connecticut
Hawaii
Illinois
Indiana
Minnesota
Missouri
Nebraska
New Hampshire
North Carolina
North Dakota
Ohio
Oklahoma
Utah
Virginia

ELIGIBILITY OF SSI RECIPIENTS FOR FOOD STAMPS

Except in California and Wisconsin, SSI beneficiaries may qualify for food stamps if they meet the food stamp income and assets requirements. In these two States, the food stamp program is "cashed out"—in other words, these States have chosen to increase State SSI supplemental payments in lieu of food stamps.

The interaction with the food stamp program has important financial implications for a State which desires to increase the income of its SSI recipients by $1.00. Because food stamps are reduced by $0.30 for each additional $1.00 of SSI income including State supplements, the State must expend $1.43 to obtain an effective $1.00 increase in SSI recipients' total income.

CHARACTERISTICS OF THE SSI POPULATION

As shown in table 12, in November 1984, 4.033 million persons received federally administered SSI payments. Of these, 1.543 million received federally administered payments on the basis of being aged, 2.410 million on the basis of being disabled, and 80,000 on the basis of blindness. However, approximately 0.5 million of those receiving benefits on the basis of disability or blindness were over the age of 65. Table 12 also indicates that approximately 2.4 million of those receiving federally administered SSI payments only receive Federal SSI payments, approximately 1.3 million receive a combination of federally financed and State financed payments, and approximately 0.3 million receive State financed supplementation only.

Table 13 shows the trends in the numbers of persons receiving federally administered SSI payments from December 1975 through September 1984, both by reason for eligibility and by age categories. There was a steady decline in the number of SSI recipients from 1975 until 1983. However, in the last year the number of SSI recipients has increased by 120,000.

In summary, the trends in the nature of the SSI population show the following:

—A steady decline in the number of persons receiving SSI benefits on the basis of age from 1975 through 1983 but with the first increase in the number of recipients on the basis of age occurring between 1983 and 1984.

—A steady increase from 107,000 in December 1975 to 207,000 in 1984 of the number of disabled and blind children under 18 receiving SSI benefits.

—A steady increase from 201,000 in December 1975 to 503,000 in September 1984 in the number of persons receiving benefits on the basis of disability or blindness who were age 65 and older.

—Little change in the number of persons ages 22-64 receiving benefits on the basis of disability or blindness except for a decline of 62,000 between 1978 and 1983 and then an increase of 66,000 between 1983 and 1984.

Characteristics of SSI recipients receiving benefits on the basis of age

Age.—As shown in table 14, of those SSI recipients receiving benefits on the basis of age, i.e., age 65 or older, 38 percent are 80 years of age or older. This is in contrast to the fact that only 21 percent of the population 65 years old or older are age 80 or older.

Sex.—As shown in table 15, 74 percent of those receiving benefits on the basis of age are women.

Race.—Twenty-three percent are black compared to 8 percent of the total population age 65 and older who are black.

Other income.—As shown in table 16, 71 percent of the SSI recipients receiving benefits on the basis of age also receive Social Security benefits. Only 1.4 percent have earned income.

Characteristics of adult SSI recipients receiving benefits on the basis of disability or blindness

Major disabling diagnosis.—Approximately 40 percent of the SSI disabled are eligible on the basis of mental impairments. Approximately 20 percent are on the basis of circulatory disorders. In comparison, only 12 percent of the Social Security disability insurance recipients are eligible on the basis of mental impairments. Circulatory disorders account for 29 percent of the disabling impairments and skeletal impairments account for 19 percent of the impairments of disability insurance recipients.

Age.—When a person who is receiving SSI on the basis of blindness or disability becomes age 65, the Social Security Administration does not convert the individual to eligibility on the basis of age. As shown in table 13, over 22 percent of the SSI adult population receiving benefits on the basis of disability are over age 65.

Sex.—In December 1983, 60 percent of those receiving SSI benefits on the basis of disability and 58 percent on the basis of blindness were women.

Race.—In December 1983, 60 percent of those receiving SSI on the basis of disability were white; 28.5 percent were black; 3.4 percent were other races; and in 7.8 percent of the cases, race was not reported.

Other income.—As shown in table 16, 36.5 percent of the disabled and 38.0 percent of the blind received Social Security benefits.

Of the disabled receiving SSI, 4.7 percent had earned income in September 1984. Of the blind, 6.4 percent had earned income in that month.

Characteristics of disabled or blind children receiving SSI

In a study completed in 1979, it was found that 15 percent of all SSI children were in foster care and under the protective custody of State welfare departments or other social welfare agencies or institutions. For over one-half of these children their main disability was mental retardation. They had lived away from their parents an average of 7.5 years and had little or no contact with their parents. In two-thirds of the cases, the children had been placed voluntarily in foster care by their parents.

For those SSI children not in foster care, 42 percent lived in households that had received AFDC or State or local general assistance during the previous year. For the disabled children not in foster care receiving SSI benefits, mental retardation was the main disability in 27 percent of the cases. Other disabling conditions for this group of children included: other diseases of the nervous system (epilepsy, muscular dystrophy, etc.) 15 percent; other mental conditions (schizophrenia, psychosis, etc.) 15 percent; and congenital anomalies (spina bifida, Down's syndrome and hydrocephaleus, etc.) 11 percent.

TABLE 12.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND AVERAGE MONTHLY AMOUNT, BY REASON FOR ELIGIBILITY AND TYPE OF PAYMENT, NOVEMBER 1984

Type of payment	Total	Aged	Blind	Disabled
	Number of persons			
Total	4,033,362	1,543,246	[1] 80,268	[2] 2,409,848
Federal SSI payments	3,702,220	1,359,091	72,136	2,270,993
Federal SSI payments only	2,425,323	956,077	43,093	1,426,153
Federal SSI and State supplementation	1,276,897	403,014	29,043	844,840
State supplementation	1,608,039	587,169	37,175	983,695
State supplementation only	331,142	184,155	8,132	138,855
	Average monthly amount			
Total	$218.64	$157.26	$264.23	$256.42
Federal SSI payments	195.78	137.57	222.83	229.76
State supplementation	97.64	94.90	138.12	97.75

[1] Includes approximately 23,000 persons aged 65 and over.

[2] Includes approximately 480,000 persons aged 65 and over.

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 13.—SSI: NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS, BY REASON FOR ELIGIBILITY AND AGE: DECEMBER 1975, DECEMBER 1978, JUNE 1982, SEPTEMBER 1983, SEPTEMBER 1984

[In thousands]

Reasons for eligibility and by age categories	December 1975	December 1978	June 1982	September 1983	September 1984
Total	4,314	4,217	3,957	3,898	4,020
Reason for eligibility:					
Aged	2,207	1,968	1,626	1,528	1,548
Blind	74	77	78	79	80
Under 18	3	5	6	6	6
18–21	4	3	4	5	5
22–64	46	43	44	45	46
65 and over	22	25	24	23	23
Disabled	1,933	2,172	2,253	2,292	2,392
Under 18	104	161	188	191	201
18–21	90	111	117	122	128
22–64	1,559	1,581	1,514	1,517	1,583
65 and over	179	319	434	462	480
Age:					
Under 18	107	166	194	197	207
18–21	93	115	121	127	133
22–64	1,605	1,624	1,558	1,562	1,629
65 and over	2,508	2,312	2,084	2,013	2,051

TABLE 14.—NUMBER AND PERCENTAGE DISTRIBUTION OF ALL ADULTS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY AND AGE, DECEMBER 1983

Age	Total	Aged	Blind	Disabled
Total number	3,665,117	1,515,400	71,448	2,078,269
Total percent	100.0	100.0	100.0	100.0
18–21	2.5	....	4.7	4.2
22–29	7.9	....	13.6	13.4
30–39	7.7	....	13.3	13.1
40–49	7.0	....	10.3	12.1
50–59	11.9	....	15.5	20.5
60–64	8.3	....	10.0	14.3
65–69	12.5	12.9	9.2	12.4
70–74	14.0	21.0	8.3	9.0
75–79	12.0	27.7	5.2	.9
80 or older	16.1	38.3	9.9	.1

TABLE 15.—NUMBER AND PERCENTAGE DISTRIBUTION OF ALL PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY, RACE, AND SEX, DECEMBER 1983

Race and Sex	Total	Aged	Blind	Disabled
Total number	3,901,497	1,515,400	78,960	2,307,137
Total percent	100.0	100.0	100.0	100.0
Race:				
White	58.3	55.2	59.1	60.3
Black	26.3	23.0	27.2	28.5
Other	4.1	5.1	4.3	3.4
Not reported	11.3	16.7	9.4	7.8
Sex and race:				
Men	34.5	26.0	42.4	39.8
White	20.3	13.7	26.0	24.5
Black	8.6	5.5	10.8	10.5
Other	1.7	1.9	1.9	1.5
Not reported	3.9	4.9	3.6	3.3
Women	65.4	73.9	57.5	60.2
White	37.9	41.5	33.0	35.7
Black	17.7	17.4	16.4	18.0
Other	2.4	3.2	2.3	1.9
Not reported	7.4	11.8	5.8	4.6

TABLE 16.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND PERCENT IN CONCURRENT RECEIPT OF INCOME AND AVERAGE MONTHLY AMOUNT, BY REASON FOR ELIGIBILITY AND TYPE OF INCOME, SEPTEMBER 1984

Type of income	Total	Reason for eligibility		
		Aged	Blind	Disabled
Total number	4,020,401	1,547,937	80,133	2,392,331
	Percent with other income			
Social security benefits	49.9	71.3	38.0	36.5
Other unearned income	11.1	14.3	11.6	9.1
Earned income	3.5	1.4	6.4	4.7
	Average monthly amount			
Social security benefits	$242	$245	$256	$238
Other unearned income	85	74	90	96
Earned income	125	127	433	111

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 17.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS AND UNEARNED INCOME (OTHER THAN SOCIAL SECURITY) AND AVERAGE MONTHLY UNEARNED INCOME BY TYPE OF INCOME, SEPTEMBER 1984

Type of income	Number [1]	Average [2]
Total	447,026	$85
Veterans' benefits	107,913	127
Railroad retirement	5,842	238
Black lung benefits	1,503	200
Employment pensions	28,133	95
Workmen's compensation	1,607	197
Support and maintenance in kind	141,876	69
Support from absent parents	13,621	105
Asset income	91,737	12
Assistance based on need	6,450	97
Other	48,344	139

[1] With unearned income other than social security benefits.

[2] Monthly amount of unearned income.

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

SPECIAL SSI BENEFITS, CONTINUED MEDICAID SERVICES, AND RELATED PROVISIONS FOR THE WORKING DISABLED

The Disability Amendments of 1980 (Public Law 96–265) amended the SSI law to include provisions intended to lessen the work disincentives for SSI disabled recipients who risked the loss of SSI and medicaid when they increased their work effort and earnings in spite of the continuation of their disability.

Under the SSI and disability insurance criteria for determining disability in the Social Security Act, the Secretary of Health and Human Services is required to prescribe the criteria for determining when employment or earnings from employment demonstrate an individual's ability to engage in substantial gainful activity (SGA), and is, therefore, no longer disabled. Current regulations have established that average counted earnings of over $300 a month (over an extended period, generally not less than 6 months) indicate that an individual is able to engage in SGA. There is also a "trial work period" for disabled SSI recipients and disability insurance recipients during which time an individual's employment activities and earnings are not used as criteria for determining whether an individual meets the disability criteria.

The 1980 amendments added the following provisions to deal with such types of work disincentives faced by the disabled:

Impairment-related work expenses

A permanent change was made in SSI and disability insurance law to provide for a deduction from earnings for purposes of determining whether an individual is engaging in substantial gainful-activity of the cost to individuals of extraordinary impairment-related work expenses. This includes, for example, attendant care costs, the cost of medical devices, equipment, and services and drugs necessary to control an impairment. These deductions are allowed regardless of whether these items are also needed to enable him or her to carry out normal daily functions. The disregard is applied only where the individual paid the cost of the impairment-related expense. In addition, impairment-related work expenses are disregarded in determining the monthly SSI payment of a disabled SSI recipient. In June 1983, 1,300 disability (DI) recipients and 2,500 SSI recipients were credited with impairment-related work expenses.

Section 1619 Program: Special SSI benefits and continuation of medicaid for the working disabled

Section 1619(a) of the SSI law provides that an individual who lost eligibility for SSI because he or she worked and demonstrated the ability to perform SGA, but who continued to have a disabling impairment, might become eligible for special SSI benefits until their countable income reached the SSI income disregard "breakeven point." In a State with no supplementation, as shown in table 3, this earned income eligibility limit is $735 per month in 1985. People who receive the special SSI benefits continue to be eligible for medicaid on the same basis as regular SSI recipients. States have the option of supplementing the Federal benefits standard for those entitled to benefits under this provision. The "breakeven point" increases two dollars for every one dollar of State supplementation above the Federal SSI benefit standard.

Information available from the Social Security Administration showed that in May 1982, 238 SSI recipients were receiving these special SSI benefits. Over 50 percent of such individuals are under age 30 compared to 16 percent of all adult disabled SSI recipients being under the age of 30.

Under section 1619(b), individuals can continue to be eligible for Medicaid even if their earnings take them past the SSI income disregard "breakeven point." This special eligibility status, under which the individual is considered a blind or disabled individual receiving SSI benefits for purposes of Medicaid eligibility, applies as long as the individual: (1) continues to be blind or have a disabling impairment; (2) except for earnings, continued to meet all the other requirements for SSI eligibility; (3) would be seriously inhibited from continuing to work by the termination of eligibility for Medicaid services; and (4) had earnings that are not sufficient to provide a reasonable equivalent of the benefits (SSI, State supplementary payments, and medicaid) that would have been available if he or she did not have those earnings.

In making an initial determination under the fourth criterion, the Social Security Administration decided to compare the individual's gross earnings to a "threshold" amount; i.e., the average expenditures for Medicaid benefits for disabled SSI cash recipients in the individual's State of residence. According to the Social Security Administration, from data obtained in both May and August of 1982, approximately 5,200 former SSI recipients retained their Medicaid eligibility under the provisions of section 1619(b). Similar to the section 1619(a) population, 48 percent of such individuals were age 22-29 compared to 16 percent of all disabled adult recipients of SSI.

The Social Security Disability Reform Act of 1984 (Public Law 98-460) extended section 1619 beyond its original expiration date of December 31, 1983. Section 1619 is now effective through June 30, 1987.

The legislation to extend section 1619 includes a new requirement related to dissemination of information about the provisions of section 1619. The Secretary of HHS is mandated to provide information to SSI applicants and recipients and to conduct training programs for the staffs of the district offices of the Social Security Administration. The Secretary of Education is to disseminate information to the State Vocational Rehabilitation agencies and, in cooperation with such agencies, is to provide information to public and private organizations and agencies concerned with rehabilitation and social services or which represent the disabled.

By mid-1986, data will be collected regarding the characteristics of the individuals benefiting from section 1619, the effects on work efforts and the types of health care services utilized and their costs. This data collection and analysis will be conducted by the Social Security Administration and the Health Care Financing Administration and will include Medicaid data provided by State Medicaid agencies.

Extended trial work period

The 1980 amendments made a permanent change in the trial work period provision for both the SSI disabled and the disability insurance program. The amendment extended the trial work period from the previous 9 months—plus 3 months of continued benefits—to 24 months. In the last 12 months of the 24-month period, an individual who is performing SGA immediately following the 9-month trial work period would not receive disability insurance benefits or regular SSI benefits while engaging in SGA, but would automatically be reinstated to active disability insurance or regular SSI status if earnings fall below the SGA level and they are otherwise eligible for benefits.

TABLE 18.—NUMBER OF PERSONS RECEIVING SSI PAYMENTS BY STATE, NOVEMBER 1984

State	Federally administered				State administered total [2]
	Total [1]	Aged	Blind	Disabled	
Total	4,033,362	1,543,246	80,268	2,409,848	264,853
Alabama	130,306	65,364	1,863	63,079	21,643
Alaska	3,306	1,144	62	2,100	[3] 4,726
Arizona	31,413	10,567	621	20,225	[3] 2,396
Arkansas	72,557	35,927	1,364	35,266	
California	665,793	265,709	18,876	381,208	
Colorado	28,924	9,919	398	18,607	[3] 34,572
Connecticut	25,068	6,591	477	18.000	13,531
Delaware	7,245	2,124	154	4,967	
District of Columbia	15,512	4,082	213	11,217	
Florida	178,120	80,199	2,948	94,973	8,950
Georgia	151,913	62,908	2,859	86,146	
Hawaii	10,773	4,740	185	5,848	
Idaho	8,056	2,290	133	5,633	[3] 2,686
Illinois	127,067	31,246	2,213	93,608	[3] 36,317
Indiana	43,925	12,246	1,192	30,487	237
Iowa	26,368	9,016	1,032	16,320	
Kansas	20,392	6,097	334	13,961	
Kentucky	96,202	35,700	2,096	58,406	7,504
Louisiana	124,873	51,982	2,122	70,769	
Maine	21,700	8,488	274	12,938	
Maryland	49,668	14,704	746	34,218	964
Massachusetts	110,706	54,581	4,976	51,149	
Michigan	117,477	30,761	2,018	84,698	
Minnesota	31,248	10,277	651	20,320	[3] [5] 10,163
Mississippi	111,529	53,762	1,786	55,981	
Missouri	78,290	30,163	1,220	46,907	[4] 14,539
Montana	7,024	1,881	125	5,018	
Nebraska	13,439	4,224	237	8,978	7,921
Nevada	7,440	3,400	453	3,587	
New Hampshire	5,903	1,872	111	3,920	4,671
New Jersey	89,486	30,379	1,163	57,944	
New Mexico	25,498	9,431	498	15,569	[3] [6] 251

TABLE 18.—NUMBER OF PERSONS RECEIVING SSI PAYMENTS BY STATE, NOVEMBER 1984—Continued

State	Federally administered				State administered total [2]
	Total [1]	Aged	Blind	Disabled	
New York	345,809	114,983	4,037	226,789	...
North Carolina	137,172	56,903	2,889	77,380	11,602
North Dakota	6,232	2,552	80	3,600	[4] 73
Ohio	121,906	28,232	2,462	91,212	...
Oklahoma	59,387	26,396	944	32,047	54,227
Oregon	24,218	6,779	532	16,907	13,647
Pennsylvania	158,870	47,141	3,009	108,720	...
Rhode Island	15,253	5,319	211	9,723	...
South Carolina	84,376	34,783	1,911	47,682	2,342
South Dakota	8,157	3,233	135	4,789	301
Tennessee	127,997	52,252	2,029	73,716	...
Texas	250,247	126,466	4,412	119,369	...
Utah	8,169	2,003	198	5,968	6,503
Vermont	9,041	3,094	119	5,828	...
Virginia	83,377	32,067	1,469	49,841	[3] 4,292
Washington	45,760	12,476	685	32,599	...
West Virginia	41,203	11,262	668	29,273	...
Wisconsin	66,378	24,500	1,023	40,855	...
Wyoming	1,989	719	38	1,232	[3] 795
Unknown	9	1	...	8	...
Other areas:					
Northern Mariana Islands [3]	591	311	17	263	...

---

[1] Includes persons with Federal SSI payments and/or federally administered State supplementation, unless otherwise indicated.

[2] Excludes data for Iowa, Louisiana, and Ohio. Total is for fiscal year 1984.

[3] Data partly estimated.

[4] Recipient data reflects mandatory supplementation only.

[5] Recipient data for June 1984.

[6] Recipient data for March 1984.

Source: Office of Supplemental Security Income Social Security Administration.

TABLE 19.—STATE SSi SUPPLEMENTS FOR AGED INDIVIDUALS WITHOUT COUNTABLE INCOME LIVING INDEPENDENTLY [1]

State	July 1975	July 1980	Jan. 1984	Jan. 1985	Percent increase contant dollars 1975–85
Alaska [2]	142	235	252	261	−6
California	101	164	163	179	−9
Colorado	27	55	58	58	9
Connecticut [3]	NA	NA	NA	NA	....
District of Columbia	0	15	15	15	....
Hawaii	17	15	5	5	−85
Idaho	63	74	88	78	−37
Illinois [3]	50	52	45	35	−64
Maine	10	10	10	10	−49
Massachusetts	111	137	128	129	−40
Michigan	12	24	24	27	15
Minnesota [4]	31	34	35	35	−42
Nebraska	67	75	74	61	−53
Nevada	55	47	36	36	−67
New Hampshire	12	46	27	27	15
New Jersey	24	23	29	31	−34
New York	61	63	61	61	−49
Oklahoma	27	79	69	60	13
Oregon	17	12	2	2	−94
Pennsylvania	20	32	32	32	−18
Rhode Island	31	42	52	54	−11
South Dakota	0	15	15	15	....
Utah	0	10	10	10	....
Vermont [5]	29	41	50	53	−7
Washington [6]	36	43	38	38	−46
Wisconsin	70	100	100	100	−27
Wyoming	0	20	20	20	....
Median [7]	31	42	38	36	−41

---

[1] The percentage decrease in constant dollars were computed by inflating July, 1975 to January, 1985 by the CPI–U price index. A project of 318.3 was assumed for January, 1985.

[2] 1975 and 1980—less if shelter costs less than $35 monthly.

[3] State decides benefit on a case-by-case basis. It is impossible to come up with a valid average of the supplements paid by the State.

[4] Payment level for Hennepin County. State has 10 geographic payments levels.

[5] State has two geographic payment levels—highest levels are shown in table. Sum paid only in Chittenden County.

[6] State has two geographic payment levels—highest levels are shown in table. Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

[7] Among the States with a payment. Connecticut is classified as having a payment above the median.

TABLE 20.—STATE SSI SUPPLEMENTS FOR AGED COUPLES WITHOUT COUNTABLE INCOME LIVING INDEPENDENTLY

State	July 1975	July 1980	Jan. 1984	Jan. 1985	Percent increase (constant dollars) 1975–85 [1]
Alabama	9	0	0	0	−100
Alaska [2]	183	338	358	371	3
California	251	389	414	448	−9
Colorado	133	229	272	278	6
Connecticut [3]	NA	NA	NA	NA	....
District of Columbia	0	30	30	30	....
Hawaii	28	24	9	9	−85
Idaho	49	80	58	46	−52
Illinois [3]	NA	NA	NA	NA	NA
Maine	15	15	15	15	−48
Massachusetts	173	214	202	202	−41
Michigan	18	36	36	40	14
Minnesota [4]	38	44	66	66	−11
Nebraska	67	114	108	89	−32
Nevada	106	90	74	74	−64
New Hampshire	0	42	21	21	....
New Jersey	13	12	23	25	0
New York	76	79	76	76	−49
Oklahoma	54	158	144	120	13
Oregon	17	10	0	0	−100
Pennsylvania	30	49	49	49	−17
Rhode Island	59	79	98	102	−11
South Dakota	0	15	15	15	....
Utah	0	20	20	20	....
Vermont [5]	61	76	91	96	−19
Washington [6]	40	44	36	37	−52
Wisconsin	105	161	161	161	−22
Wyoming	0	40	40	40	....
Median [7]	56	64	66	66	−40

[1] The percentage decrease in constant dollars were computed by inflating July 1975 to January 1985 by the CPI–U price index. A projection of 318.3 was assumed for January 1985.

[2] 1975 and 1980—less if shelter costs less than $35 monthly.

[3] State decides benefit on a case-by-case basis. It is impossible to come up with a valid average of the supplements paid by the State.

[4] Payment level for Hennepin County. State has 10 geographic payment levels.

[5] State has two geographic payments levels—highest levels are shown in table. Sum paid only in Chittenden County.

[6] State has two geographic payment levels—highest levels are shown in table. Sum paid in King, Pierce, Kitsay, Snohomish, and Thurston Counties.

[7] Among the States with a payment. Illinois is not classified. Connecticut is classified as having a payment above the median.

LEGISLATIVE ACTION DURING 1984 AND PRIOR YEARS

The Deficit Reduction Act of 1984 contained seven provisions which affect the SSI program which are explained below. There were also several provisions which affect the SSI program in the Social Security Disability Benefits Reform Act of 1984. See section 3 for a more complete description. The impact upon SSI costs are shown in table 21. Also shown in table 21 are the budgetary impact of changes made to the SSI program during 1981 to 1983. On the basis of CBO's latest (January 1985) estimates, SSI benefits are 8 to 9 percent larger as a result of legislative changes made during the last 4 years.

1. Increase in dollar limitations under SSI assets test

The act increases the countable assets limit under the SSI program by $100 a year for an individual and $150 a year for a couple, beginning in calendar year 1985, and each year through calendar year 1989. The current assets limit is $1,600 for an individual and $2,400 for a couple. The limit would be $2,000 for an individual and $3,000 for a couple in 1989 and thereafter.

2. Limit recoupment rate in case of overpayments

The Secretary is authorized to recover SSI overpayments by adjusting future payments or by direct recovery from the individual. Overpayments may be waived under conditions specified in law and regulations. When an overpayment is detected, SSA sends a notice to the recipient. The notice contains information regarding relief from recovery and rights of appeal.

The act establishes a limit on the rate of recovery from SSI recipients who have been overpaid. In the case of overpayments, the act limits the amount of adjustment or recovery in any month to the lesser of: (1) the amount of the benefit for that month; or (2) an amount equal to 10 percent of the countable income (including the SSI payment) of the individual (or couple) for that month. This limitation would not apply if there is fraud in connection with the overpayment. The recipient may request a different rate at which benefits or income may be withheld or recovered.

3. Limit on recovery of overpayments when recipient has excess assets.

Under prior law, if in any month, a recipient's assets exceed the asset limit (currently $1,600 for an individual and $2,400 for a couple) the individual is ineligible for benefits in that month and the entire amount of the benefit paid for that month is considered an overpayment subject to recovery. The act provides that in cases where there is an overpayment based on an excess of assets of $50 or less, the recipient would be deemed to be without fault for purposes of waiving the overpayment and the overpayment would not be recovered unless the Secretary finds that the failure to report the excess was knowing and willful on the part of the recipient.

4. Exclusion of retroactive payments from resources

Under prior law, for purposes of determining SSI eligibility and benefit amounts, a retroactive SSI check is not counted as income to the recipient. By regulation, the Social Security Administration has provided that a retroactive SSI check is not counted as a resource for 3 months beyond the month in which it is received. A retroctive Social Security (title II) check is considered to be unearned income in determining the applicable monthly benefit amount, and is considered a resource if it is retained in months thereafter. The act provides that SSI and title II retroactive benefit payments may not be considered as a resource for a period of 6 months after the month in which the retroactive benefit is received.

5. Adjustments in SSI and OASDI benefits on account of retroactive payments

Under prior law, OASDI benefits that are paid retroactively following the initial determination of eligibility are reduced by the amount of any excess SSI benefits that have been paid because the OASDI benefits have been received in a lump sum rather than in the months when regularly payable. The act would expand this provision to also provide for reducing the retroactive SSI payment in cases where retroactive OASDI benefits are paid before the SSI benefits and to make other technical changes.

6. Exclusion from income of Alaska bonus payment

An amendment to the SSI statute in 1975 provided for the exclusion from countable income of the Alaska "longevity bonus," i.e., payments to certain individuals who have lived in the State at least 25 years. As the result of an Alaska State Supreme Court decision, Alaska enacted a revision that reduces the residency requirement from 25 years to 1 year. The act provides for the continued disregard of the Alaska bonus but it would apply only to those individuals who, prior to October 1, 1985, meet the 25-year residency requirement of eligibility for the Alaska bonus as it was in effect prior to the recent amendments mandated by the courts.

7. Income and eligibility verification procedures

Under prior law, IRS wage information furnished by employers to IRS is available to the Social Security Administration for administering the SSI program. However, IRS unearned income information (filed by a financial institution or corporation with respect to payments to individuals in the form of interest, dividends, etc.) is not available to Federal and State agencies for use in the administration of the SSI program.

The act provides for the IRS to disclose return information with respect to unearned income to Federal and State SSI and other programs.

Disclosure can only be made to agencies that meet the requirements to safeguard this confidential information against disclosure, and verification of the unearned income information is required prior to taking action to reduce or terminate benefits.

TABLE 21.—MAJOR LEGISLATIVE CHANGES IN THE SSI PROGRAM FROM 1981 TO 1984

[Minus (−) means decrease in outlays; in millions of dollars]

	Fiscal year—					
	1982	1983	1984	1985	1986	1987
	January 1984 Estimates					
1981:						
Retrospective accounting and monthly reporting	37	20	21	17	14	NA
Limit reimbursements for vocational rehabilitation services	−20	−18	−15	−11	−6	NA
Eliminate OASDI minimum benefit for future beneficiaries	15	33	48	56	59	NA
Total—SSI	32	35	54	62	67	NA
1982:						
Prorate benefits to application date		−30	−25	−30	−30	−30
Round benefits down		0	−15	−20	−20	−20
Coordinate with OASDI COLA		−30	−32	−30	−30	−26
Phase out hold harmless		−30	−37	−45	−45	−45
Exclude burial plots and contracts		5	5	5	5	5
Modify mandatory pass through		0	0	0	0	0
Credit States for unnegotiated checks		0	0	1	1	1
Exclude home energy assistance from countable income		1	2	2	0	0
Total—SSI		−84	−102	−117	−119	−115
Food stamp impact of SSI provision		10	13	15	15	15
1983:						
SSI notification		0	65	95	90	90
Net impact of OASDI COLA delay and SSI benefit increases		170	635	715	720	755
SSI eligibility for temporary residents of emergency shelters		1	3	3	3	3
Disregard in-kind assistance provided by nonprofit organizations		1	2	0	0	0
Total—SSI		172	705	813	813	845
Food stamp impact of SSI provisions		−40	−170	−190	−195	−205
Medicaid impact of SSI provisions		0	40	70	75	75

TABLE 21.—MAJOR LEGISLATIVE CHANGES IN THE SSI PROGRAM FROM 1981 TO 1984—Continued

[Minus (−) means decrease in outlays; in millions of dollars]

	Fiscal year—					
	1982	1983	1984	1985	1986	1987
	January 1985 Estimates					
1984:						
Increase asset limits				3	15	30
Limit recoupment rate in case of overpayments				22	2	2
Limit on recovery of overpayments when recipient has excess resources				2	2	2
Exclusion of retroactive payments from resources				Neg.	Neg.	Neg.
Adjustments in SSI and OASDI benefits on account of retroactive payments				−5	−5	−5
Exclusion from income of Alaska bonus payment				1	1	1
Income and eligibility verification procedures				5	−75	−85
Disability Amendments (Public Law 98–460)				5	8	10
Total—SSI				33	−52	−45
Food Stamp impact of SSI provisions				1	−4	−4
Medicaid impact of SSI provisions				2	10	15

NA = Not available

Neg. = Negligible.

APPENDIX H. LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)

Since 1977, the Federal Government has provided assistance to low-income households to help them deal with high energy prices. During fiscal year 1981, the Home Energy Assistance Act of 1980 (title III of Public Law 96–223, the Crude Oil Windfall Profit Tax Act of 1980) authorized a program of block grants to the States to provide energy assistance to low-income families. In fiscal year 1981, $1.85 billion was appropriated for the program.

As part of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) the Low-Income Home Energy Assistance Act of 1981 authorized the Secretary of Health and Human Services to make grants to States, in fiscal years 1982–84, to assist eligible households to meet the costs of home energy. The Human Services Reauthorization Act of 1984 (Public Law 98–558) made amendments to the Low-Income Home Energy Assistance Act of 1981 and authorized appropriations for fiscal years 1985 and 1986. Appropriations for fiscal years 1982 through 1984 were $1.875, $1.975, and $2.075 billion, respectively. Public Law 98–619 appropriated $2.1 billion for fiscal year 1985.

ALLOTMENTS TO STATES AND TERRITORIES

Public Law 98–558 amended the method used to allocate funds among the States. Funds are allocated based upon each State's share of home energy expenditures by low-income households, except that, for fiscal year 1985, no State will receive less than it received in fiscal year 1984.

The law provides discretion to the Secretary of Health and Human Services (HHS) to apportion between one-tenth and one-half of 1 percent of the funds available in the fiscal year to the territories. Table 1 shows the allotments to the States for fiscal years 1981, 1982, 1983, 1984, and 1985.

Indian tribes can receive direct funding under a State's allocation if the Secretary of Health and Human Services determines that the tribe would be better served. In fiscal year 1984, for example, a total of 129 Indian tribes and tribal organizations located in 24 States received LIHEAP grants directly from HHS.

Beginning with fiscal year 1985, the percentage of a State's allotment (including tribal funds and transfers) which it may hold available for the following year, is reduced from 25 percent to 15 percent.

The amount reserved does not change, in any way, the State's subsequent fiscal year allocation. Amounts above 15 percent that are not expended must be reallocated by the Secretary. States have the authority to transfer up to 10 percent of their allotment to one or any combination of the block grants for community services, title XX social services preventive health and health services, primary health care, and maternal and child health services. In fiscal year 1984, 30 States reported to a HHS phone survey that they planned to transfer some portion of their LIHEAP funds to other block grants (see table 2). No State reported plans to transfer funds into LIHEAP from other block grants.

As is the case with the 15-percent carryover authority, if a State chooses to transfer up to 10 percent of its allotment to other block grants, the transfer would not affect the computation of the State's allotment under the energy assistance program.

TABLE 1.—LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM STATE ALLOTMENTS

[In thousands of dollars]

States	Fiscal year—				
	1981 [1]	1982 [2]	1983 [3]	1984 [3]	1985 [3]
Alabama	$15,674	$16,005	$16,855	$17,725	$18,234
Alaska	7,505	6,506	7,062	7,034	7,247
Arizona	6,426	6,998	7,383	7,802	8,150
Arkansas	11,960	12,268	12,928	13,584	13,973
California	84,088	85,886	90,439	95,204	97,894
Colorado	29,319	30,074	31,692	33,299	33,299
Connecticut	38,247	39,233	41,344	43,440	43,440
Delaware	5,077	5,207	5,488	5,766	5,931
District of Columbia	5,940	6,093	6,421	6,746	6,940
Florida	25,921	25,436	26,804	28,163	28,970
Georgia	19,609	20,115	21,197	22,271	22,910
Hawaii	1,975	2,026	2,135	2,243	2,243
Idaho	11,181	11,639	12,256	12,877	12,877
Illinois	105,862	108,591	114,433	120,233	123,679
Indiana	47,431	49,167	51,812	54,438	55,371
Iowa	29,470	34,845	36,720	38,581	38,581
Kansas	15,515	15,974	16,820	17,704	18,211
Kentucky	24,943	25,586	26,963	28,329	29,141
Louisiana	16,024	16,403	17,277	18,166	18,687
Maine	27,513	25,165	26,629	27,905	27,914
Maryland	29,285	30,040	31,656	33,261	34,214
Massachusetts	82,707	78,460	82,670	86,877	86,878
Michigan	111,598	103,003	108,578	114,081	113,951
Minnesota	72,409	74,276	78,272	82,239	82,239
Mississippi	13,930	13,764	14,510	15,246	15,683
Missouri	37,885	43,375	45,709	48,026	48,026
Montana	11,350	11,107	11,704	12,298	12,298
Nebraska	13,799	17,211	18,151	19,071	19,032
Nevada	3,560	3,635	3,841	4,036	4,151
New Hampshire	14,481	14,855	15,654	16,447	16,447

TABLE 1.—LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM STATE ALLOTMENTS—Continued

[In thousands of dollars]

States	Fiscal year—				
	1981 [1]	1982 [2]	1983 [3]	1984 [3]	1985 [3]
New Jersey	71,025	72,722	76,679	80,563	82,849
New Mexico	8,867	9,154	9,474	9,882	9,973
New York	231,907	237,759	250,589	263,291	263,291
North Carolina	34,561	35,452	37,359	39,253	40,378
North Dakota	7,995	13,197	13,907	14,530	14,612
Ohio	93,651	96,065	101,233	106,364	109,413
Oklahoma	15,998	14,535	14,811	15,558	16,004
Oregon	22,723	23,309	24,563	25,808	25,808
Pennsylvania	124,568	127,780	134,654	141,479	141,479
Rhode Island	12,594	12,918	13,613	14,220	14,220
South Carolina	13,822	12,769	13,456	14,138	14,544
South Dakota	10,241	10,440	11,011	11,168	11,434
Tennessee	25,267	25,918	27,313	28,697	29,520
Texas	41,261	42,325	44,602	46,862	48,206
Utah	13,289	13,537	14,293	14,827	14,827
Vermont	10,854	11,134	11,733	12,328	12,328
Virginia	39,019	36,593	38,561	40,516	41,677
Washington	33,104	37,325	38,963	40,847	40,896
West Virginia	16,507	16,932	17,843	18,748	19,285
Wisconsin	61,679	66,859	70,456	74,027	74,027
Wyoming	3,561	5,596	5,897	6,195	6,195
U.S. total	1,813,177	1,855,262	1,954,327	2,052,395	2,077,577

[1] Includes reallocation of funds and crisis intervention funds but excludes payments to Indian tribal organizations. Source: Low Income Energy Assistance Program; Report to Congress for Fiscal Year 1981; Department of Health and Human Services.

[2] Excludes payments to Indian tribal organizations. Source: Low Income Home Energy Assistance Program; Report to Congress for Fiscal Year 1982; Department of Health and Human Services.

[3] Excludes payments to Indian tribal organizations. Column does not add to total due to rounding. Source: Department of Health and Human Services, January 1985.

ELIGIBILITY AND TYPES OF ASSISTANCE

States have considerable discretion under the program to determine eligibility criteria and the types of assistance to be provided to low-income households to deal with high energy costs.

Federal funds may be used to make payments to households in which one or more individuals are receiving AFDC, food stamps, SSI or certain veterans' benefits, or to households with incomes which do not exceed the greater of 150 percent of the poverty level or 60 percent of a State's median income. See table 1 of Appendix K for poverty level information.

In fiscal year 1984, 30 States reported eligibility tests below the Federal maximum. Fifteen States reported using AFDC, food stamps, SSI or veterans' pensions for categorical LIHEAP eligibility.

The term "household" for the program means any individual or group of individuals who are living together as one economic unit and for whom residential energy is customarily purchased in common, or who make undesignated payments for energy in the form of rent.

States are to provide assurances that, in a manner consistent with the efficient and timely payment of benefits, the highest level of assistance will be furnished to those households which have the lowest income and the highest energy costs in relation to income. To help ensure the success of this aspect of the program, 34 States considered vulnerability to energy costs in determining eligibility, and 14 States considered the assets of potential recipients in fiscal year 1984.

In conducting their outreach activities under the program, States are to give priority to making households with elderly or handicapped individuals aware of the assistance available. States take a variety of approaches to insure that the elderly and the handicapped have knowledge of the program and access to its benefits. Among them are toll-free information hotlines, special application periods, transportation to LIHEAP application offices, and home visits.

States may use LIHEAP funds to help meet the cost of home heating or cooling, energy-related emergencies, and low-cost weatherization of homes (up to 15 percent of a States' allotment). Table 2 provides information on the level of State support for these types of assistance in fiscal year 1984.

States have considerable discretion over the method of providing assistance. In addition to making payments directly to eligible households, a State may choose to use low-income home energy assistance funds to pay home energy suppliers directly. States must provide assurances that suppliers will charge the eligible households the difference between the amount of the assistance and the actual cost of home energy. Also, States may use Federal funds to provide tax credits to energy suppliers who supply home energy to low-income households at reduced rates.

Home energy assistance payments cannot be considered as the income or resources of an eligible household for any purpose under Federal or State law, specifically including any law relating to taxation, public assistance or welfare programs. A provision in the Agriculture and Food Act of 1981 (Public Law 97-98) excludes as income for the food stamp program any payments or allowances made under any Federal law for the purpose of providing energy assistance. Also excluded from being counted as income under the Food Stamp program are payments or allowances made under any State or local law for energy assistance, if they are designated as energy assistance by a State or local legislative body and determined by the Secretary of Agriculture to be provided on a seasonable basis, with certain exceptions, for an aggregate period not to exceed 6 months in any year.

TABLE 2.—FISCAL YEAR 1983 LOW INCOME ENERGY ASSISTANCE PROGRAM—STATE PROGRAM FEATURES

	Eligibility (heating only)		Use of funds (other than heating assistance) [1]			Estimated average heating benefit (per household)	Estimated households served (heating only)
	Categorical eligibility (AFDC, food stamps, SSI, or veterans pensions)	Income eligibility below Federal maximum	Transfer to other block grants (thousands)	Cooling assistance (thousands)	Weatherization (thousands)		
Alabama		X	$1,773	0	$2,402	$133	58,510
Alaska	X		0	0	800	475	13,783
Arizona	X	X	0	0	1,000	100	[2] 22,629
Arkansas		X	1,358	$1,509	2,416	115	72,550
California	X	X	8,602	0	12,000	150	320,000
Colorado		X	3,330	0	4,644	295	62,023
Connecticut	X		0	0	3,000	554	64,430
Delaware		X	0	0	1,040	312	13,579
District of Columbia		X	0	792	914	348	13,064
Florida		X	2,545	0	3,802	110	[2] 156,266
Georgia		X	1,980	0	2,537	158	105,126
Hawaii	X	X	0	0	0	90	[2] 27,751
Idaho		X	1,288	0	1,932	210	38,269
Illinois	X	X	0	0	14,786	300	405,495
Indiana	X	X	0	0	3,660	258	175,861
Iowa			0	0	4,357	247	101,912
Kansas			1,599	3,200	2,656	186	48,662
Kentucky		X	2,833	0	3,455	212	32,830
Louisiana		X	1,640	8,000	2,850	64	126,775
Maine	X	X	174	0	3,853	375	53,368
Maryland			0	0	4,989	280	86,252
Massachusetts			0	0	7,800	561	149,308
Michigan	X		10,300	0	6,400	139	330,000
Minnesota			0	0	425	480	139,345
Mississippi		X	0	0	2,063	150	81,643
Missouri			4,339	1,500	3,720	203	152,660
Montana	X	X	1,200	0	1,700	463	20,755
Nebraska			1,907	1,700	1,110	331	37,762
Nevada			360	210	600	218	10,188
New Hampshire		X	0	0	1,775	468	26,568
New Jersey	X	X	7,200	1,000	4,900	284	202,832
New Mexico		X	0	0	0	215	50,727
New York	X		15,050	0	24,600	200	979,089
North Carolina		X	2,323	0	2,200	160	160,463
North Dakota			1,523	0	970	609	18,411
Ohio			0	0	15,955	141	441,036
Oklahoma		X	0	0	1,608	136	78,889
Oregon		X	2,332	0	2,850	198	87,045
Pennsylvania			0	0	11,533	273	[3] 420,548
Rhode Island			150	0	711	264	31,400
South Carolina		X	0	174	1,896	102	84,235

TABLE 2.—FISCAL YEAR 1983 LOW INCOME ENERGY ASSISTANCE PROGRAM—STATE PROGRAM FEATURES—Continued

	Eligibility (heating only)		Use of funds (other than heating assistance) [1]			Estimated average heating benefit (per household)	Estimated households served (heating only)
	Categorical eligibility (AFDC, food stamps, SSI, or veterans pensions)	Income eligibility below Federal maximum	Transfer to other block grants (thousands)	Cooling assistance (thousands)	Weatherization (thousands)		
South Dakota			1,214	0	1,822	405	21,232
Tennessee			2,421	0	2,597	199	85,545
Texas	X	X	4,150	15,400	4,326	76	304,203
Utah			1,339	0	1,250	265	41,678
Vermont		X	30	0	1,850	400	21,872
Virginia	X		0	0	3,000	245	113,299
Washington	X	X	3,697	0	4,626	180	108,828
West Virginia		X	750	0	2,033	161	72,168
Wisconsin	X		2,500	0	10,090	256	189,278
Wyoming		X	560	0	0	361	14,284

---

[1] Figures reflect total expenditures anticipated at time of survey.

[2] Includes cooling assistance.

[3] Includes winter crisis assistance.

Source: Data compiled from telephone interviews with State offices in July 1984 by the Department of Health and Human Services, and from States' reports of October 1984 of households served. Telephone survey information is provisional and subject to change.

PLANNING AND ADMINISTRATION

No more than 10 percent of a State's allotment can be used for administrative costs.

States are required to submit an application for funds to the Secretary of Health and Human Services. As a part of the annual application, the chief executive officer of the State is required to make certain assurances, and include a plan detailing how these assurances would be carried out. These assurances relate to eligibility requirements, uses to be made of the funds, and planning and administrative requirements under the law.

States must provide for public participation and public hearings in development of the State plan, including making it available for public inspection and allowing public comment on the plan. At least once a year States are required to engage an independent entity to prepare an audit of expenditures under this program. States would be required to repay amounts found not to have been spent in accordance with the act, or the Secretary may offset these amounts against future payments. The Comptroller General would be required to evaluate whether expenditures are consistent with the act.

If it is necessary to designate local administrative agencies in order to carry out the purposes of the program, States are required to give special consideration to any local public or private nonprofit agency, or successor agency, which was receiving Federal funds under any low-income energy assistance or weatherization program on the date the program was enacted (August 13, 1981). The State must first determine that the agency meets program and fiscal requirements.

The Low-Income Home Energy Assistance Act also contains nondiscrimination requirements that fair administrative hearings be provided for individuals whose claim for assistance is denied or not acted on with reasonable promptness, and that limit the use of grants for construction, except as related to weatherization activities.

The Secretary of Health and Human Services, after consultation with the Secretary of Energy, is to provide for the collection of certain data, including the characteristics of the households assisted by the program, the costs and types of fuel used and the types of assistance provided by States under the program. The Secretary is to submit an annual report to the Congress containing a summary of the data collected.

Section 12. Title XX Social Service Programs

TITLE XX SOCIAL SERVICES 1974–1981

In 1974, Congress enacted Public Law 92–672, which created a new title XX of the Social Security Act authorizing an entitlement for States for social services funds with certain goals for the program, public participation planning requirements, limitations on activities which could be funded, and eligibility requirements. Prior to that time the States were entitled to receive Federal matching funds for social services under the various public assistance titles of the Social Security Act. In 1972, Congress established a $2.5 billion annual ceiling on the entitlement with each State's share determined on the basis of its population relative to the total population of all the States. When title XX was enacted, the $2.5 billion ceiling was retained along with the allocation formula. Table 1 shows the title XX funding levels from the first year of the program through present law.

By fiscal year 1981 the entitlement ceiling for allocation to States for social services was $2.9 billion. In addition, $16.1 million of title XX funds was available for the territories for social services and $75 million was available to the States for staff training costs related to title XX activities. A total of $2,991,100,000 was available to States and territories for social services and training in fiscal year 1981 under title XX. As part of Public Law 96–272, enacted in 1980, the ceiling was increased from $2.9 billion to $3 billion in fiscal year 1982 and was increased by $100 million a year until it reached $3.3 billion in fiscal year 1985.

TITLE XX SOCIAL SERVICES BLOCK GRANT

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) amended title XX of the Social Security Act to establish a "Block Grant to States for Social Services" which combined the funding for social services for the States and territories and social services staff training. Public Law 97–35 reduced the title XX entitlement ceiling to $2.4 billion for fiscal year 1982 and provided for increases to $2.45 billion in fiscal year 1983, $2.5 billion in fiscal 1984, $2.6 billion in fiscal 1985 and $2.7 billion in fiscal 1986.

The emergency jobs bill (Public Law 98–8), enacted in March 1983, appropriated an additional $225 million for fiscal year 1983 but which also was available for carryover to fiscal year 1984. These additional funds were allocated to the States on the basis of a formula intended to respond to the needs of the unemployed served by the jobs bill. One-half of the funds were allocated on the basis of population; one-third based on the number of unemployed individuals in the State; and one-sixth among those States whose average unadjusted unemployment rate from June 1982 through

November 1982 was 9.4 percent or higher. In October 1983, as part of legislation to extend the Federal supplemental compensation program (Public Law 98-135) the title XX ceiling was increased by $200 million for fiscal 1984 to $2.7 billion and by $100 million for fiscal year 1985 to $2.7 billion.

Title XX social services block grant funds are generally allocated to the States on the basis of population. The allotments for Puerto Rico, Guam, the Virgin Islands and the Northern Marianas from the national total are based on their allocation for fiscal year 1981 reduced to reflect the new total funding level.

The Federal funds are available to States without a State matching requirement, compared to the 25-percent State matching required for most of the title XX funds available to States under the old title XX law. With the enactment of Public Law 97-35, States have the authority to transfer up to 10 percent of their title XX social services allotment to one or any combination of the block grants for community services; low income home energy assistance; preventive health services; primary health care; and maternal and child health services. These transfers to title XX programs totaled approximately $78 million in fiscal year 1983. Table 2 shows the total funds available to each State and territory under title XX in fiscal years 1983 through 1985.

SPECIAL TITLE XX FUNDING FOR CHILD DAY CARE STAFF AND PARENT TRAINING RELATED TO PREVENTING CHILD ABUSE

Because of the concern by Congress of reports of child sexual abuse in day care centers, a $25 million increase in title XX funding for fiscal year 1985 was appropriated for use by the States in providing training of child day care staff, State licensing and enforcement officials and of the parents of children in child day care. The earmarked funds were included in the continuing resolution for fiscal year 1985 (Public Law 98-473). One-half of the allotment to a State under the $25 million is available only if the State has in effect by September 30, 1985, procedures for screening and conducting background and criminal history checks of child care staff. While States will receive their share of the $25 million in fiscal 1985, if they do not meet the requirements of the law, their allocation will be reduced accordingly in fiscal 1986 or 1987.

Public Law 98-473 also required that, by January 12, 1985, the Secretary of HHS was to draft and distribute to the States for their consideration, a Model Child Care Standards Act with particular attention to staff training and supervision, employment history checks and parent visitation.

TABLE 1.—TITLE XX FUNDING LEVELS

[In millions of dollars]

Fiscal year	Funding level
1976	[1]$2.575
1977	[1]2.796
1978	[1]2.791
1979	[1]2.991
1980	[2]2.791
1981	[2]2.991
1982	[3]2.400
1983	[4]2.675
1984	2.700
1985	[5]2.725
1986 and future years	2.700

---

[1] Included $16 million for Puerto Rico, Guam and the Virgin Islands and $59 million in fiscal year 76, $80 million in fiscal year 77 and $75 million in fiscal years 78 and 79 for title XX staff training.

[2] Included $16.1 million for Puerto Rico, Guam, the Virgin Islands and the Northern Marianas and $75 million for title XX staff training.

[3] Public Law 97–35 eliminated separate funding for title XX staff training.

[4] Includes $225 million appropriated in the emergency jobs bill (Public Law 98–8).

[5] Includes $25 million earmarked for training of day care providers, licensing officials and parents including training in the prevention of child abuse in child care settings.

TABLE 2.—TITLE XX SOCIAL SERVICES FEDERAL ALLOCATION BY STATES

[In thousands of dollars]

	Fiscal year—		1985		
	1983	1984	Regular entitlement allocation	Day care training allocation	Total
Total	$2,675,000	$2,700,000	$2,700,000	$25,000	$2,725,000
Alabama	46,852	45,864	45,725	423.4	46,149
Alaska	4,650	4,824	5,079	47.0	5,126
Arizona	32,173	32,715	33,166	307.1	33,473
Arkansas	26,913	26,884	26,568	246.0	26,814
California	281,717	283,312	286,713	2,655.0	289,368
Colorado	33,385	34,717	35,312	327.0	35,638
Connecticut	35,742	36,696	36,564	338.6	36,903
Delaware	6,837	7,002	6,981	64.6	7,046
District of Columbia	7,527	7,388	7,317	67.8	7,385
Florida	112,524	119,233	120,790	1,118.4	121,908
Georgia	62,743	65,266	65,393	605.6	65,999
Hawaii	11,008	11,487	11,527	106.7	11,634
Idaho	10,952	11,229	11,191	103.6	11,294
Illinois	136,592	134,209	132,757	1,229.2	133,987

TABLE 2.—TITLE XX SOCIAL SERVICES FEDERAL ALLOCATION BY STATES—Continued

[in thousands of dollars]

	Fiscal year—		1985		
	1983	1984	Regular entitlement allocation	Day care training allocation	Total
Indiana	65,612	64,025	63,445	587.5	64,032
Iowa	33,671	33,944	33,688	311.9	34,000
Kansas	27,117	27,903	27,925	258.6	28,183
Kentucky	43,308	42,878	42,525	393.7	42,918
Louisiana	49,492	50,443	50,584	468.4	51,053
Maine	12,948	13,266	13,139	121.7	13,261
Maryland	48,555	49,916	49,459	458.0	49,917
Massachusetts	66,068	67,596	67,040	620.7	67,660
Michigan	111,954	107,770	105,633	978.1	106,611
Minnesota	47,155	47,937	47,929	443.8	48,372
Mississippi	29,716	29,636	29,583	274.0	29,857
Missouri	56,742	57,854	57,415	531.6	54,946
Montana	9,092	9,285	9,289	86.0	9,375
Nebraska	18,027	18,465	18,392	170.3	18,562
Nevada	9,632	9,894	10,217	94.6	10,311
New Hampshire	10,606	10,960	11,028	102.1	11,130
New Jersey	84,748	86,694	86,255	798.7	87.054
New Mexico	15,300	15,550	15,760	145.9	15,906
New York	201,985	206,102	204,784	1,896.1	206,680
North Carolina	67,791	69,704	69,800	646.3	70,446
North Dakota	7,514	7,705	7,770	71.9	7,842
Ohio	129,417	126,235	125,139	1,158.7	126,297
Oklahoma	34,678	36,298	36,842	341.1	37,183
Oregon	31,529	31,041	30,719	284.4	31,004
Pennsylvania	142,167	138,998	137,593	1,274.0	138,867
Rhode Island	11,288	11,159	11,110	102.9	11,212
South Carolina	36,932	37,083	37,144	343.9	37,488
South Dakota	7,905	8,032	8,013	74.2	8,087
Tennessee	54,755	54,002	53,936	499.4	54,435
Texas	163,886	172,896	177,195	1,640.7	178,836
Utah	16,819	17,774	18,021	166.9	18,188
Vermont	5,872	6,042	5,984	55.4	6,039
Virginia	61,562	63,580	63,677	589.6	64,266
Washington	49,382	49,377	49,227	455.8	49,683
West Virginia	23,633	22,856	22,590	209.2	22,799
Wisconsin	56,424	55,524	55,258	511.6	55,769

TABLE 2.—TITLE XX SOCIAL SERVICES FEDERAL ALLOCATION BY STATES—Continued

[In thousands of dollars]

	Fiscal year—		1985		
	1983	1984	Regular entitlement allocation	Day care training allocation	Total
Wyoming	5,442	5,761	5,821	53.9	5,875
Puerto Rico	15,735	13,966	13,966	129.3	14,095
Guam	422	466	466	4.3	470
Virgin Islands	422	466	466	4.3	470
Northern Marianas	84	93	93	.9	94

Source: Department of Health and Human Services.

PLANNING AND ADMINISTRATIVE REQUIREMENTS

As under previous title XX law, States are required to make available for public comment a report on how the funds are to be used, including information about the types of social services, and related training and administrative activities to be funded and the characteristics of the individuals to be served. This report is also to be submitted to the Department of Health and Human Services. At least every two years, the State must prepare a post-expenditure report describing the activities for which funds were expended and the extent to which funds were spent in a manner consistent with the pre-expenditure report. At least every two years, States must arrange for an independent audit of these expenditures.

While there are now fewer Federal requirements than previously regarding public participation in the development of a State's title XX plan, a survey of States conducted by the American Public Welfare Association shows almost all the States have indicated that they have no plans to reduce the amount or substantially change their methods of public participation.

TITLE XX PROGRAM GOALS

The purpose of the title XX social services program is to provide assistance to States to enable them to furnish services directed at the five goals of the statute:

—Achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency;

—Achieving or maintaining self-sufficiency, including reduction or prevention of dependency;

—Preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating or reuniting families;

—Preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and

- Securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

RECIPIENTS OF TITLE XX FUNDED SOCIAL SERVICES

In fiscal year 1979, when the ceiling on title XX services funds was $2.9 billion, over 7.2 million individuals were recipients of title XX services.

Under the old title XX law, eligibility for title XX funded social services was determined by the States within certain parameters set by Federal law.

The 1981 Budget Reconciliation Act eliminated the federally mandated priority that at least 50 percent of the Federal title XX funds received by a State must be expended for services to recipients of AFDC, SSI or medicaid.

The 1981 Budget Reconciliation Act also eliminated the following provisions in the title XX program related to targeting services to low income individuals and families:

- With certain exceptions, no person with gross family income higher than 115 percent of the State's median income for a family of four (adjusted for family size) could receive title XX funded services. The exceptions were protective services for abused or neglected children or adults, family planning services and information and referral services.
- States had to charge fees reasonably related to income for services to individuals or families with income higher than 80 percent of the State's median income or the median income of all States, whichever was lower, and they could, at their option, charge fees for services to persons below that income level.

While States no longer have to set eligibility standards or target funds within certain parameters set by Federal title XX law, many States had chosen income eligibility criteria lower than the Federal maximum income eligibility limits under the old title XX law. Therefore, it could be expected that the income eligibility criteria that States now use do not exceed that of previous years and most likely would be lower because of the reductions in the title XX ceiling.

In fiscal year 1980, 27 percent of those receiving title XX services were AFDC recipients; 11 percent were SSI recipients; 4 percent were medicaid recipients who were not AFDC or SSI recipients; 21 percent of the recipients received services provided without regard to income or welfare status; and 37 percent were eligible according to income criteria.

TYPES OF SOCIAL SERVICES PROVIDED UNDER TITLE XX

Under the title XX social services block grant program each State must submit a report to the Secretary of Health and Human Services on the intended use of the funds. These pre-expenditure reports only are required to include information about the types of activities to be funded and the characteristics of the individuals to be served. Therefore, there is very limited information on the use of title XX funds by the States.

Table 3 is a list of the primary services offered by the largest number of States taken from a summary of the pre-expenditure reports for fiscal year 1984 prepared by the Department. Currently, the most frequently provided services are: home-based services, day care for children, protective and emergency services for children and adults, and adoption services. Fiscal year 1979 is the most recent year for which data are available on the percentage of total title XX dollars spent for various types of social services.

Day care services for children consumed about 21 percent of all Federal funds spent for title XX in fiscal year 1979. Home based services, such as homemaker/chore services, accounted for about 16 percent of all Federal funds in 1979. Protective services and other services related to child foster care accounted for another 16 percent.

Homemaker/chore services include, for example, an individual trained by the local welfare agency to go into the home of an aged or disabled individual a few hours a week to assist with meal preparation, cleaning, and personal care to enable them to remain in their home.

Protective services for children include the activities of a child-welfare caseworker who is responsible for investigating and managing cases of child abuse or neglect. For example, a caseworker may visit a home after reports are received from a doctor or a neighbor of possible child abuse and determine whether the home situation warrants recommending removal of the children and placement in foster care.

In another situation, the caseworker will have to determine whether the child care training provided by a private family service agency to a teenage mother enables her to care for her two children who currently are in foster care.

In another situation, the caseworker may have to arrange for an emergency caretaker to stay with some children in their own home instead of being placed in an institution while their mother is in a hospital receiving emergency medical care.

Although title XX provides discretion to States to define services to accomplish the goals of the title XX program, there are certain limitations. Title XX funds may not be used:

(1) for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than minor remodeling) of any building or other facility;

(2) for the provision of cash payments for costs of subsistence or for the provision of room and board (other than costs of subsistence during rehabilitation, room and board provided for a short term as an integral but subordinate part of a social service, or temporary emergency shelter provided as a protective service);

(3) for payment of the wages of any individual as a social service (other than payment of the wages of welfare recipients employed in the provision of child day care services);

(4) for the provision of medical care (other than family planning services, rehabilitation services, or initial detoxification of an alcoholic or drug dependent individual) unless it is an integral but subordinate part of a social service;

(5) for social services (except services to an alcoholic or drug dependent individual or rehabilitation services) provided in and by employees of any hospital, skilled nursing facility, intermediate care facility, or prison, to any individual living in such institution;

(6) for the provision of any educational service which the State makes generally available to its residents without cost and without regard to their income;

(7) for any child day care services unless such services meet applicable standards of State and local law; or

(8) for the provision of cash payments as a service (except as otherwise provided in (2) above).

The Secretary of the Department of Health and Human Services may grant a State's request to waive the prohibition against the use of title XX funds for medical services or against the purchase or improvement of land or buildings where it is found that extraordinary circumstances justify such uses.

TABLE 3.—SERVICES TO BE PROVIDED BY THE STATES, FISCAL YEAR 1984 [1]

Services	Number of States	Services	Number of States
Home-based services	51	Prevention and intervention services	28
Day care—children	50	Other	27
Protective and emergency services—children	47	Residential care and treatment	26
Protective and emergency services—adults	45	Transportation services	25
Adoption	38	Home delivered/congregate meals	24
Disabled services	36	Special services for children and youth	24
Foster care—children	34	Health-related services	23
Information and referral	34	Foster care—adults	20
Employment, education and training	31	Legal services	16
Family planning services	31	Substance abuse services	14
Social support services	30	Placement services	13
Day care—adults	29	Housing services	12
Counseling	28	Services for unmarried parents	10

[1] Includes 50 States, the District of Columbia, and the four eligible territories.

Source: Department of Health and Human Services.

Section 13. Child Welfare, Foster Care and Adoption Assistance Program—Title IV, Parts B and E

Although child protective services in America date back to the 19th century, the first protective services were provided by voluntary private organizations. The passage of the 1935 Social Security Act was an impetus for greater State involvement in public child protective services. During the following two decades, 35 States enacted statutes assigning responsibility for the protection and care of neglected children to State agencies. The development of public protective services also was accelerated by the 1962 amendments to the Social Security Act. That legislation required that each State extend child welfare services to all political jurisdictions within the State, and made AFDC foster care and services available to abused and neglected children from families who were receiving, or were potentially eligible for AFDC. The 1974 amendments to the Social Security Act, which established the title XX social services program, required that each State provide child protective services on a statewide basis.

The American Public Welfare Association, under a grant from the Department of Health and Human Services, is gathering data from public State child welfare agencies regarding foster care/substitute care and adoption services in the States. This information gathering system is called the Voluntary Cooperative Information System (VCIS) and for the 1981-82 period received information from 48 States. As of February 1985, information for later time periods is being gathered and analyzed. It is expected that the data from this information system will be published following the analyses currently in progress.

The number of children in foster care, as reported through the voluntary child welfare information system of the States, was 273,000 in 1981.

About 100,000 of this total receive support under the aid to families with dependent children foster care program. Table 1 shows the average monthly number of children in foster care in each State in fiscal years 1981 through 1985. Since the percent of the foster care children in a State for which a State claims Federal matching funds varies greatly, the table does not necessarily reflect the total foster care population in each of the States.

Table 2 shows the estimate of the Federal funds provided to States for foster care under title IV–E, child welfare services under title IV–B, and funds which States have used from their allocation for foster care for child welfare services. When combined with approximately 15 percent of the title XX social services funds which are used by States for child welfare services, over $1 billion of Federal funds are provided to States for child welfare/foster care services. In fiscal year 1983 the Federal share of support for AFDC-foster care children was $384 million, State claims for fiscal year

1984 are $422 million, and are estimated to be $455 million in 1985. Table 4 shows the State-by-State estimated claims for foster care in fiscal years 1983 and 1984. The Federal matching rate for foster care maintenance payments is the same as the medicaid matching rate for the State. The average Federal share for all States is about 54 percent.

Family foster care accounts for approximately 55 percent of Federal expenditures (75 percent of placements); foster care group homes and other institutions account for 45 percent of Federal expenditures (but only 25 percent of placements). In a 1982 survey of States' family foster care reimbursement rates it was found that, for example, for a 6-year-old child in foster care the monthly rate was between $150 and $200 in 30 States. In 13 States the family foster care rate for a 6-year-old child was over $200, and between $120 and $150 in another 8 States. Most States also provide additional payments to foster parents who provide care for handicapped or other children with special needs.

TABLE 1.—AVERAGE MONTHLY NUMBER OF AFDC FOSTER CARE CHILDREN

[Fiscal years 1981–1984, 1985 (est.)]

Name of State	1981	1982	1983	1984	1985 (est.)
Totals	106,433	103,274	98,727	100,787	100,000
Alabama	1,516	1,544	1,528	1,513	1,501
Alaska	56	45	55	19	19
Arizona	618	455	584	507	503
Arkansas	395	370	406	395	392
California	16,708	17,520	16,797	18,197	18,055
Colorado	529	559	707	1,204	1,195
Connecticut	775	795	1,105	1,100	1,091
Delaware	273	249	272	295	293
District of Columbia	1,882	1,693	1,806	1,592	1,580
Florida	1,151	1,194	1,399	1,954	1,939
Georgia	1,398	1,218	1,368	1,602	1,589
Hawaii	21	21	17	26	26
Idaho	199	171	162	156	155
Illinois	5,528	5,135	4,672	4,107	4,075
Indiana	1,676	1,439	1,464	1,487	1,475
Iowa	651	627	642	656	651
Kansas	1,590	1,328	1,111	1,046	1,038
Kentucky	1,286	1,265	1,145	1,153	1,144
Louisiana	1,767	1,547	1,616	1,980	1,965
Maine	1,145	1,042	898	825	819
Maryland	2,334	2,108	1,928	1,805	1,791
Massachusetts	561	1,049	937	927	920
Michigan	5,785	5,862	5,840	6,082	6,035
Minnesota	1,699	1,342	1,802	1,665	1,652

TABLE 1.—AVERAGE MONTHLY NUMBER OF AFDC FOSTER CARE CHILDREN—Continued

[Fiscal years 1981–1984, 1985 (est.)]

Name of State	1981	1982	1983	1984	1985 (est.)
Mississippi	879	835	780	750	744
Missouri	2,098	1,916	2,174	1,748	1,734
Montana	250	259	382	357	354
Nebraska	599	652	623	635	630
Nevada	209	209	239	224	222
New Hampshire	484	474	488	467	463
New Jersey	1,615	1,464	1,763	3,320	3,294
New Mexico	222	164	172	302	300
New York	20,173	19,607	18,434	16,481	16,352
North Carolina	5,157	4,611	1,433	1,524	1,512
North Dakota	335	342	350	280	278
Ohio	3,530	3,289	3,625	4,186	4,153
Oklahoma	791	911	832	904	897
Oregon	1,314	1,460	1,457	1,357	1,346
Pennsylvania	5,359	5,300	5,300	5,213	5,172
Rhode Island	429	400	519	781	775
South Carolina	527	449	606	845	838
South Dakota	400	432	362	282	280
Tennessee	1,730	1,493	1,401	1,135	1,126
Texas	2,661	2,542	2,590	2,685	2,664
Utah	229	194	252	295	293
Vermont	269	295	291	431	428
Virginia	2,276	2,136	1,913	1,984	1,969
Washington	812	1,021	1,179	1,203	1,194
West Virginia	605	650	584	774	768
Wisconsin	3,898	3,555	2,674	2,266	2,248
Wyoming	39	36	43	65	64

Source: Office of Human Development Services.

TABLE 2.—ESTIMATE OF TITLE IV–E FOSTER CARE AND TITLE IV–B CHILD WELFARE SERVICES FUNDS AVAILABLE TO STATES IN FISCAL YEARS 1982–86

[In thousands of dollars]

Fiscal year	Title IV–B child welfare services [1]	Title IV–E foster care State claims	State use of FC funds for IV–B child welfare services	Total
1982	156,326	334,246	20,560	511,132
1983	156,326	384,490	32,610	573,426
1984	165,000	422,220	32,180	619,400
1985	200,000	[2] 455,183	[2] 30,240	[2] 685,423
1986	200,000	[2] 479,761	[2] 27,880	[2] 707,641

[1] States that have not been determined by HHS to have implemented Section 427 child welfare protections, receive about 10 percent less funds than would be their allocation under the appropriation for fiscal years 1982 and 1983, 15 percent less in fiscal year 1984 and 30 percent in fiscal year 1985. Public Law 96–272 requires HHS to reallocate such funds to those States that do meet the Section 427 requirements for the year.

[2] Estimate.

Source: Office of Human Development Services.

CHILD WELFARE AND FOSTER CARE REFORMS

The Adoption Assistance and Child Welfare Act of 1980, Public Law 96–272, enacted on June 17, 1980, authorizes a modified foster care program and a new adoption assistance program under a new part E of title IV of the Social Security Act. In the new part E and in the modifications made in the title IV–B child welfare services program, a comprehensive set of services, procedures, and safeguards are described which all States are to implement within the next several years. In enacting this law, Congress anticipated that the funding for the title IV–B child welfare services program would steadily increase from $56 million in fiscal year 1979 to reach $266 million by fiscal year 1983. These anticipated increases in Federal funds for title IV–B child welfare services were to provide States initially with some additional resources to assist them in implementing the described services, procedures and safeguards. Also, the availability of the funds to the States was structured to provide States financial incentives to implement them as quickly as possible. However, while the title IV–B appropriation increased to $163 million for fiscal year 1981, it was $156 million for both fiscal years 1982 and 1983, $165 million in fiscal year 1984, and was increased to $200 million for fiscal year 1985. Table 3 shows the State-by-State allocations under title IV–B for fiscal years 1983 to 1985.

As part of the initial effort to improve the situation for children currently in foster care, the law provides for States to conduct an inventory of all children who have already been in foster care for over 6 months to determine whether current placement is appropriate and the services needed. In addition, each State is to implement a foster care information system to insure that information on the foster children's characteristics and the goals of the placement of each child readily available to caseworkers and administrators.

The law provides that a case plan is to be developed for each foster care child describing the services that will be provided to the family and child to improve the conditions in the home and meet the treatment needs of the child while in foster care. It also requires that there be an independent administrative review of the case every 6 months to determine the continuing appropriateness of the services, to determine the continuing necessity for placement in care, and to set a date by which the child can be returned home, freed for adoption or otherwise permanently placed. There must also be a mandatory dispositional hearing within 18 months of the original placement of the child in foster care. This hearing must be held in a family or juvenile court, or other court of competent jurisdiction or by an administrative body appointed by a court.

In cases where preventive services cannot alleviate the need for out of home placement of a child, the case plan and case review system is to ensure that a child is to be placed in the least restrictive setting, and in reasonable proximity to his family to increase the chances of the child being returned to his home.

States are to provide family reunification services for foster care children and their families to alleviate the conditions necessitating placement and to enable the child to return home as quickly as possible.

State and local governments are also to provide such preventive services as family counseling, 24-hour crisis intervention for families, and emergency caretakers to provide emergency child care in the home as means to prevent the unnecessary removal of children or extended placement out of the home.

TABLE 3.—TITLE IV–B CHILD WELFARE SERVICES STATE-BY-STATE ALLOCATIONS AND STATUS OF STATES COMPLIANCE WITH SECTION 427 CHILD WELFARE PROTECTIONS

[In thousands of dollars]

States	Fiscal year			States compliance with section 427—child welfare protections—fiscal year 1983 (approved 30, denied 3, pending 9)
	1983	1984	1985	
Totals	$156,326	[1] $165,000	[1] $200,000	
Alabama	3,275	3,452	$4,136	Approved
Alaska	248	307	386	
Arizona	2,042	2,097	2,607	Approved.
Arkansas	1,933	2,031	2,472	
California	13,195	14,066	17,204	Pending.
Colorado	1,947	2,025	2,506	Approved.
Connecticut	1,694	1,633	1,929	Approved.
Delaware	429	454	530	Denied (appealed).
District of Columiba	345	334	386	Pending.
Florida	5,967	6,365	7,836	Denied (appealed).
Georgia	4,448	4,726	5,754	Approved.
Hawaii	619	721	883	
Idaho	866	924	1,134	Approved.
Illinois	6,601	6,984	8,419	Approved.
Indiana	3,843	4,124	4,948	Approved.
Iowa	1,973	2,043	2,443	Approved.
Kansas	1,561	1,611	1,947	Approved.
Kentucky	2,947	3,149	3,818	Approved.
Louisiana	3,647	3,802	4,664	Pending.
Maine	955	987	1,185	Approved.
Maryland	2,561	2,628	3,159	Pending.
Massachusetts	3,154	3,507	4,167	
Michigan	5,832	6,174	7,355	
Minnesota	2,768	2,848	3,419	Pending.
Mississippi	2,479	2,599	3,153	Pending.
Missouri	3,440	3,623	4,364	Approved.
Montana	670	3,694	839	Approved.
Nebraska	1,150	1,189	1,433	Pending.
Nevada	488	570	680	Approved.
New Hampshire	706	737	875	
New Jersey	4,085	4,105	4,915	Approved.
New Mexico	1,183	1,288	1,586	Approved.
New York	10,333	10,440	12,529	Approved.
North Carolina	4,533	4,854	5,859	Approved.
North Dakota	555	579	696	Approved.

TABLE 3.—TITLE IV-B CHILD WELFARE SERVICES STATE-BY-STATE ALLOCATIONS AND STATUS OF STATES COMPLIANCE WITH SECTION 427 CHILD WELFARE PROTECTIONS—Continued

[In thousands of dollars]

States	Fiscal year			States compliance with section 427—child welfare protections—fiscal year 1983 (approved 30, denied 3, pending 9)
	1983	1984	1985	
Ohio	7,171	7,484	8,943	Pending.
Oklahoma	2,223	2,340	2,947	Approved.
Oregon	1,686	1,853	2,233	Approved.
Pennsylvania	7,373	7,622	9,161	Approved.
Rhode Island	662	684	803	
South Carolina	2,707	2,917	3,546	Approved.
South Dakota	619	648	779	Approved.
Tennessee	3,534	3,802	4,583	Approved.
Texas	10,471	11,151	13,902	Approved.
Utah	1,567	1,732	2,188	Approved.
Vermont	467	486	579	
Virginia	3,620	3,778	4,564	Denied (appealed).
Washington	2,525	2,665	3,248	Approved.
West Virginia	1,541	1,640	1,975	Approved.
Wisconsin	3,340	3,424	4,082	Pending.
Wyoming	383	397	477	
Territories:				
Guam	192	224	258	
Northern Marianas	92	96	102	
Puerto Rico	3,500	4,234	5,164	
Virgin Islands	183	212	244	

---

[1] Computed as if all States meet Section 427 requirements and are eligible for share of amounts above $141 million.

Source: Office of Human Development Services.

TABLE 4.—AFDC FOSTER CARE FEDERAL MATCHING FUNDS STATE CLAIMS FISCAL YEARS 1982–85 AND ESTIMATED TRANSFER OF FOSTER CARE FUNDS TO TITLE IV–B CHILD WELFARE SERVICES BY STATES UNDER OPTIONAL STATE-BY-STATE FOSTER CARE CEILINGS FOR FISCAL YEAR 1985

[In thousands of dollars]

States	Fiscal year				Estimated transfer of foster care funds to IV–B child welfare services (1985)	Total IV–E funds used for foster care and transferred
	1982	1983	1984	1985		
Total	334,246	373,314	398,180	455,183	30,240	485,423
Alabama	2,293	2,140	2,660	2,729	0	2,729
Alaska	476	148	520	88	150	238
Arizona	1,497	1,733	1,890	1,796	0	1,796
Arkansas	453	546	530	618	400	1,018
California	57,909	82,592	65,230	105,888	1,720	107,608
Colorado	677	1,066	1,050	1,561	1,030	2,591
Connecticut	1,510	2,735	1,860	3,878	0	3,878
Delaware	336	369	410	442	240	682
Dist. of Col.	8,978	5,410	1,450	7,451	0	7,451
Florida	1,900	2,391	2,050	3,220	590	3,810
Georgia	5,156	6,881	4,930	7,706	0	7,706
Hawaii	30	24	30	39	400	439
Idaho	258	253	410	304	260	564
Illinois	6,946	5,902	10,050	6,028	0	6,028
Indiana	889	913	1,210	1,031	1,710	2,741
Iowa	1,273	1,678	2,000	2,062	230	2,292
Kansas	3,236	3,339	4,510	3,907	970	4,877
Kentucky	1,298	1,972	1,910	2,739	980	3,719
Louisiana	4,453	5,304	5,760	12,193	0	12,193
Maine	2,267	2,948	2,900	2,435	570	3,005
Maryland	2,786	3,060	3,890	3, 259	1,600	4,859
Massachusetts	2,395	2,570	4,970	5,291	0	5,291
Michigan	24,118	28,162	29,780	34,488	0	34,488
Minnesota	3,794	4,150	6,880	7,039	0	7,039
Mississippi	896	968	1,410	1,188	400	1,588
Missouri	2,074	2,130	2,640	2,356	1,270	3,626
Montana	1,177	1,473	1,520	1,718	0	1,718
Nebraska	1,773	1,657	1,800	2,386	0	2,386
Nevada	438	384	570	373	190	563
New Hampshire	816	978	770	1,286	0	1,286
New Jersey	2,060	2,638	2,900	5,282	0	5,282

TABLE 4.—AFDC FOSTER CARE FEDERAL MATCHING FUNDS STATE CLAIMS FISCAL YEARS 1982–85 AND ESTIMATED TRANSFER OF FOSTER CARE FUNDS TO TITLE IV–B CHILD WELFARE SERVICES BY STATES UNDER OPTIONAL STATE-BY-STATE FOSTER CARE CEILINGS FOR FISCAL YEAR 1985—Continued

[In thousands of dollars]

States	Fiscal year				Estimated transfer of foster care funds to IV–B child welfare services (1985)	Total IV–E funds used for foster care and transferred
	1982	1983	1984	1985		
New Mexico	214	396	190	599	60	659
New York	139,577	123,700	149,590	136,557	6,500	143,057
North Carolina	1,898	2,013	2,420	2,297	230	2,527
North Dakota	814	933	960	874	0	874
Ohio	3,906	4,680	5,490	6,214	0	6,214
Oklahoma	1,768	4,288	1,840	4,143	0	4,143
Oregon	4,843	5,614	5,840	7,147	1,120	8,267
Pennsylvania	11,070	25,000	28,310	25,525	4,730	30,255
Rhode Island	895	1,425	920	1,237	0	1,237
South Carolina	536	761	730	1,443	0	1,443
South Dakota	707	673	1,010	569	120	689
Tennessee	1,737	169,909	2,500	1,885	2,130	4,015
Texas	5,626	5,567	6,810	7,098	0	7,098
Utah	441	654	580	864	40	904
Vermont	1,083	1,590	1,240	1,914	0	1,914
Virginia	2,915	2,976	3,780	3,249	2,150	5,399
Washington	1,584	4,189	3,650	4,879	380	5,259
West Virginia	1,450	1,352	1,740	2,503	0	2,503
Wisconsin	8,904	9,180	12,000	15,226	0	15,226
Wyoming	116	111	90	177	70	247

FINANCIAL INCENTIVES TO STATES TO IMPLEMENT IMPROVED CHILD WELFARE SERVICES AND PROCEDURES

There are a number of financial incentives to States to implement the new child welfare and foster care system including the following:

Foster care funding ceiling if child welfare services fully funded

First, the law provides for a temporary State-by-State ceiling on Federal AFDC funding for foster care in effect through fiscal year 1985. This ceiling is intended to create financial incentives to States to implement procedures to reduce unnecessary placement or extended placement in foster care. However, the Federal mandatory ceiling on foster care funds is only in effect when title IV-B child welfare services appropriations reach certain specified levels. That amount is $266 million in fiscal year 1985. The title IV-B appropriation for fiscal year 1985 is $200 million which, while it is a $35 million increase over the 1984 amount, is not sufficient to trigger the mandatory foster care ceiling.

A State may use anyone of the following methods to calculate the most favorable ceiling: (1) the State's fiscal year 1978 Federal foster care funds increased by 33⅓ percent for fiscal year 1981, and increased thereafter by twice the increase in the CPI each year but not to exceed 10 percent each year; (2) the State's share of $100 million relative to its population under 18; or (3) for those States with foster care caseloads below the national average, the State's funds increased by a percent equal to its caseload growth but not more than 10 percent, plus the increase provided in (1).

Increased services funds if a State provides certain services and procedures

Second, while a State can receive its share of $141 million of title IV-B appropriations without conducting the inventory, without having an operational information system and without case planning, case review, and family reunification services, a State cannot receive its share of title IV-B appropriations in excess of $141 million unless it has in place such procedures and services. In addition, when title IV-B appropriations reach the authorized maximum of $266 million for 2 consecutive years, a State could continue to receive additional funding over its share of $56.5 million only if it has also implemented a preventive services program designed to prevent the need for removing children from their natural homes.

State plan and judicial determination if preventive services provided

Third, the new law establishes more specific State plan requirements under the new title IV-E authorization for foster care. Effective October 1, 1983, for a State to be eligible for Federal funds for AFDC-related children in foster care, the State title IV-E State plan must provide that prior to placement in foster care reasonable efforts will be made, in the case of such children, to eliminate the need for the removal of the child from the home, to make it possible for the child to return to his home and that there will be a case plan and a case review for each such child. Also, effective October 1, 1983, for a State to be eligible to receive Federal funds for a child placed in foster care there must have been a judicial determination that reasonable efforts have been made to provide services to prevent the removal of the child from the home.

Federal funding of voluntarily placed foster care children

Fourth, States which implement the child welfare/foster care services and procedures are able to claim, through September 30, 1985, Federal foster care matching funds for children who are placed in foster care under a voluntary placement agreement between the agency and parents. Under the old law, eligibility for Federal foster care funds was limited to those children removed from the home as a result of a judicial determination that continuance in the home would be contrary to the child's welfare. The intent of this provision is to give parents the opportunity to ask for help rather than having a court order the child into care.

A voluntary placement agreement between the agency and the parents must specify, at a minimum, the legal status of the child and the rights and obligations of the parents or guardians, the child, and the agency while the child is in placement. Federal matching for voluntarily placed foster care children does not continue after 6 months unless there has been a judicial determination that the continued placement is in the best interest of the child. Also, parents have the right to revoke the voluntary placement agreement unless the State agency obtains a judicial determination that the return of the child to the home would be contrary to the child's best interests.

According to the Department of Health and Human Services the number of States claiming funds under this provision has increased from none in fiscal year 1981 to 13 in fiscal year 1983; 22 States are expected to claim Federal funds for voluntarily placed children for fiscal year 1984.

State option for transfer of foster care funds to child welfare services

Fifth, States gain flexibility in the use of Federal foster care funds under a voluntary foster care ceiling if they have implemented the child welfare/foster care services and procedures. A portion of the Federal foster care matching funds made available under the ceiling which are not used for foster care maintenance can be used for IV-B child welfare services. In years when the IV-B child welfare services appropriation is insufficient to trigger a mandatory foster care ceiling a State can opt for a voluntary ceiling to gain the option to use foster care funds for child welfare services. The provision in the law which provides States this option expires September 30, 1985, concurrently with the foster care ceiling provision. Under the optional foster care ceiling, States cannot transfer more foster care funds to title IV-B services than an amount which, together with the IV-B funds it receives, exceeds the amount of IV-B funds it would have received if the IV-B appropriation for such year had been sufficient to require a ceiling on foster care funds in all States. Table 2 shows that States used this option to transfer $20 million in fiscal year 1982, $32 million in fiscal year 1983, and transferred $32 million in fiscal year 1984. Table 4 provides State-by-State data on the estimated transfers for fiscal year 1985.

ADOPTION ASSISTANCE PROGRAM

The 1980 legislation (Public Law 96-272) required all States to establish an adoption assistance program under the new title IV-E no later than October 1, 1982. Federal matching funds (at the same rate as applied to medicaid in the State) are available for a child with "special needs" placed in adoption who was eligible for SSI, AFDC or AFDC foster care, including voluntarily placed children. "Special needs" children include those, for example, who are difficult to place because of ethnic background, age, membership in a minority or sibling group or the presence of physical, mental or emotional handicaps. Children receiving adoption assistance payments are also eligible for medicaid.

Although 49 States, the District of Columbia and the Virgin Islands had adoption assistance programs by 1980, there remained a financial disincentive for States to place children eligible for Federal matching payments for foster care using only State adoption assistance funds. If children receiving Federal matching payments for foster care under title IV-A were adopted with assistance provided solely by the State, the State would have to pay the total cost for the adoption assistance instead of only paying the partial cost for foster care. The adoption assistance program established by Public Law 96-272 was designed to eliminate this disincentive by providing Federal matching funds in the costs of adoption assistance for eligible children.

Table 5 shows the Federal share of adoption assistance programs in the States for fiscal years 1983 through 1984 and the estimated claims for fiscal years 1985 and 1986. The table also shows the average number of children per month for which the State is claiming Federal matching funds in fiscal year 1983. Federal matching funds are expected to increase to $42 million by fiscal year 1986. The costs of the adoption assistance program include not only the actual adoption assistance payment but also the costs of administration and training.

IMPLEMENTATION OF CHILD WELFARE AND FOSTER CARE REFORMS

Section 427 of title IV-B specifies the child welfare services and foster care protections and procedures which a State must be found to be providing before it can qualify for certain of the financial incentives described earlier; that is, a State qualifying for its share of title IV-B appropriations in excess of $141 million or being permitted to transfer funds from its foster care ceiling allotment for a given year to use for child welfare services. States were notified by HHS officials in June 1981 that instead of the Department conducting reviews at that time of States child welfare and foster care programs to determine if a State was actually providing the service and procedures required under section 427, States would be allowed to "self certify" compliance. Initially, 34 States "self certified" that in fiscal year 1981, they were in compliance with the section 427 provisions of the new law.

In June 1982, HHS officials provided material to their regional offices for use in validating States certification of compliance which had been submitted to HHS approximately a year earlier. As of November 1984, 30 States have received approval for fiscal year 1983 following on-site reviews by Department officials; 3 States have been denied but are appealing the denial to the Grant Appeals Board and a final decision has not been made for 9 States. The remaining States did not "self certify" or withdrew from the certification process. Table 3 shows those States which have been approved by the Department of Health and Human Services as meeting the requirements under section 427 for fiscal year 1983. It also shows those States for which a decision is pending and those denied.

TABLE 5.—ADOPTION ASSISTANCE ESTIMATED STATE CLAIMS

State	Fiscal year 1983		1984	1985	1986
	Amount	Average number of children per month			
Total	$12,096,455	6,230	$24,243,343	$32,267,889	$41,947,702
Alabama	28,056	23	83,705	111,412	144,281
Alaska					
Arizona	267,188	117	343,145	456,726	593,744
Arkansas	81,555	42	133,574	177,786	231,122
California	314,870	94	4,169,128	5,549,109	7,213,842
Colorado	62,568	47	72,625	96,664	125,663
Connecticut	76,225	62	95,787	127,493	165,741
Delaware	419		5,043	6,713	8,727
District of Columbia	16,590	167	160,805	214,032	278,241
Florida	141,337	38	783,727	1,043,141	1,356,084
Georgia	2,973	6	22,506	29,956	38,942
Hawaii	644	6	3,371	4,487	5,833
Idaho	18,256	8	42,033	55,947	72,730
Illinios	218,758	115	664,151	883,958	1,149,180
Indiana	27,713	35	133,005	177,030	230,139
Iowa	48,442	91	117,144	155,919	202,695
Kansas	36,339	55	107,514	143,101	186,031
Kentucky	103,631	82	177,263	235,937	306,718
Louisiana	40,044	24	103,950	138,357	179,864

Maine	17,658	11	97,888	130,289	169,376
Maryland	178,630	154	265,962	353,996	460,194
Massachusetts	331,230		326,934	435,149	565,694
Michigan	2,158,746	1,170	3,095,771	4,120,471	5,356,613
Minnesota	258,768	126	366,325	487,578	633,852
Mississippi	63,575	59	153,664	204,527	265,885
Missouri			78,897	105,012	136,515
Montana			50,665	67,435	87,665
Nebraska	108,374	73	168,531	224,314	291,608
Nevada	8,598	15	11,160	14,854	19,310
New Hampshire	16,363	14	39,577	52,676	68,479
New Jersey	108,859	40	300,317	399,722	519,638
New Mexico	48,591				
New York	6,257,293	852	9,272,185	12,341,278	16,043,661
North Carolina	41,762	90	118,722	158,019	205,425
North Dakota	22,581	13	75,928	101,060	131,378
Ohio		167	334,197	444,816	578,261
Oklahoma	2,018		33,449	44,588	57,964
Oregon	37,185	62	39,164	52,127	67,765
Pennsylvania	156,962	57	353,663	470,726	611,944
Rhode Island		138	223,799	297,876	387,239
South Carolina	3,418		59,061	78,611	102,194
South Dakota	3,649	5	21,884	29,128	37,866
Tennessee	67,416	51	153,430	204,215	265,480
Texas	29,798	50	149,430	198,891	258,559
Utah	4,067		35,869	47,742	62,064

TABLE 5.—ADOPTION ASSISTANCE ESTIMATED STATE CLAIMS—Continued

State	Fiscal year 1983		1984	1985	1986
	Amount	Average number of children per month			
Vermont	17,462	5	26,151	34,807	45,249
Virginia	100,009	66	183,489	244,223	317,490
Washington	201,994	213	382,831	509,548	662,413
West Virginia			21,681	28,857	37,515
Wisconsin	365,841	229	584,191	777,558	1,010,828
Wyoming					

Source: Office of Human Development Services.

TABLE 6.—AVERAGE NUMBER OF AFDC FOSTER CARE CHILDREN AND FEDERAL BENEFIT PAYMENTS: 1970–90

	Number (in thousands)	Benefits (millions)
1970	NA	NA
1971	73	40
1972	91	85
1973	84	71
1974	90	90
1975	104	138
1976	105	171
1977	101	183
1978	98	213
1979	104	NA
1980	100	NA
1981	106	272
1982	103	334
1983	99	384
1984	101	422
1985 [1]	100	455
1986 [1]	NA	480
1987 [1]	NA	503
1988 [1]	NA	524
1989 [1]	NA	544
1990 [1]	NA	564

NA—Not available.

[1] Projections under current law.

APPENDIX I. EXPLANATION AND IMPACT OF MAJOR CHANGES ENACTED INTO LAW DURING 1981 TO 1984 FOR SPENDING PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

This appendix presents estimates for the major legislative changes enacted into law during 1984 and from 1981 through 1984 for programs with spending authority within the jurisdiction of the Committee on Ways and Means.

Table 1 contains January 1985 estimates of the outlay impact of legislative changes enacted between 1981 and 1984. For example, table 1 indicates that outlays for Social Security for fiscal year 1986 would be $9.1 billion greater if no legislative changes had taken place after 1980. Table 2 is identical to table 1, except that it illustrates the reduction in outlays as a percentage of prior law outlays. For example, the number −4.5 for Social Security in fiscal year 1986 means that Social Security outlays were reduced 4.5 percent relative to a baseline with the same economic assumptions in fiscal year 1986 except that the baseline assumes no legislative changes in Social Security after 1980. The next line illustrates the percentage reduction in after-tax value of Social Security benefits.

A few additional notes about tables 1 and 2:

1. The change in percentage reductions in table 2 are not very meaningful particularly for Trade Adjustment Assistance. The decline from 90 to 81 percent is primarily a reflection of the fact that as unemployment falls, so would spending under pre-OBRA policies.
2. The change in outlays for the Social Services Block Grant is more technically the change in funding authority for that program.
3. The Medicare outlay reductions do not include changes in premiums for beneficiaries.

Table 1 illustrates the total amount of outlay reductions on a unified budget basis as a result of legislative changes enacted during 1984 by major program area. The impact upon each program can be obtained from table 4. Table 4 is a detailed listing of the budget impacts by provision. These tables were provided by the Congressional Budget Office and reflect their estimate of these changes as of January 1985. In some cases this will be different from the estimates used during the legislative process.

Table 5 illustrates the number of individuals impacted for several selected legislative changes. These numbers were also provided by the Congressional Budget Office.

TABLE 1.—SPENDING EFFECTS OF LEGISLATIVE CHANGES SINCE 1981 [1]

[By fiscal year, in billions of dollars; (— indicates outlay reduction, + outlay increase)]

	1982	1983	1984	1985	1986	1987	1988
Trade adjustment assistance	−1.3	−0.9	−0.6	−0.4	−0.3	−0.3	−0.3
Social Security	−1.6	−4.5	−8.0	−9.1	−9.1	−9.6	−9.9
Unemployment compensation	−1.0	+2.3	+2.3	+.4	−.6	−.5	−.4
Aid to families with dependent children	−.9	−.9	−1.0	−1.0	−1.1	−1.2	−1.2
Child support enforcement	0	−.1	−.1	−.1	(*)	(*)	(*)
SSI	(*)	+.1	+.7	+.8	+.8	+.8	+.9
Social services block grant [2]	−.7	−.5	−.6	−.7	−.7	−.7	−.7
Earned income tax credit	0	0	0	(*)	+.3	+.2	+.2
Medicare: [3]							
Hospital insurance	−.4	−2.3	−2.6	−3.2	−5.7	−7.3	−9.1
SMI	−.2	−.6	−1.0	−2.3	−2.9	−3.2	−3.4
Total	−6.1	−7.4	−10.9	−15.6	−19.3	−21.8	−23.9
Taxation of Social Security [4]			−.9	−3.2	−3.8	−4.5	−5.4
Taxation of unemployment compensation [5]		−.7	−.7	−.6	−.5	−.5	(6)
Premiums [7]		+.1	+.3	−.4	−.2	−.1	−.1
Total including taxing of benefits and premiums	−6.1	−8.0	−12.2	−19.8	−23.8	−26.9	(6)

* Less than $50 million.

[1] These estimates are very uncertain. They require estimating what spending would have been under the policies in effect in 1981, comparing these estimates to actual spending for 1982 to 1984, and projecting the differences for 1985 through 1988. It is, however, increasingly difficult to estimate what spending would have been under the policies in effect in 1981. Since 1981, changes have occurred in the economy, in the demographic composition of the population, in the policies of State governments, and in Federal administrative practices. Each of these factors has potentially affected spending in these programs. It is very difficult to identify separately the independent effects of Federal legislation.

[2] Change in funding ceiling.

[3] Does not include impact of premium changes.

[4] CBO estimate of January 1984.

[5] Department of Treasury estimate—January 1984.

[6] Not available.

[7] (—) indicates a premium increase. They include the impact of reduced SMI outlays on premiums.

Note: These are January 1985 CBO estimates unless otherwise indicated.

TABLE 2.—PERCENTAGE CHANGE IN OUTLAYS RESULTING FROM LEGISLATIVE CHANGES ENACTED DURING 1981 to 1984 ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

	Fiscal year			
	1985	1986	1987	1988
Trade adjustment assistance	−90.0	−81.0	−81.0	−81.0
Social Security	−4.5	−4.3	−4.3	−4.1
Including taxation of benefits	−6.1	−6.1	−6.3	−6.4
Unemployment compensation	+2.4	−3.4	−2.8	−2.2
Including taxation of benefits	−1.2	−6.2	−5.6	(1)
Aid to families with dependent children	−10.5	−11.4	−12.0	−11.5
Supplemental security income	9.0	8.8	8.4	8.3
Social Services Block Grant	−20.6	−20.6	−20.6	−20.6
Earned income tax credit	.1	24.1	23.3	22.2
Medicare:				
Hospital insurance	−6.3	−10.0	−11.4	−12.6
SMI	−9.3	−10.1	−9.9	−9.2
Total	−7.2	−10.0	−10.9	−11.5
Total outlays	−4.9	−5.7	−6.0	−6.1
Including taxing of benefits and premiums	−6.2	−7.0	−7.4	(1)

[1] Not available.

Source: Compiled by Committee staff from information provided by CBO.

TABLE 3.—UNIFIED BUDGET IMPACT OF LEGISLATIVE CHANGES ENACTED DURING 1984 ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS [1]

[In millions of dollars]

	Fiscal year						
	1984	1985	1986	1987	1988	1989	1990
Social Security:							
OASI		−22	−15	−15	−15	−14	(2)
DI		311	348	351	289	204	(2)
Supplemental security income		31	−54	−44	0	20	35
Aid to families with dependent children	−5	133	128	153	188	193	203
Child support enforcement	5	57	67	70	47	14	−9
Social Services Block Grant			25				
Earned income tax credit		9	257	237	217	200	(2)
Medicare	−77	−1,196	−2,026	−2,798	−2,944	−3,218	(2)
Total	−77	−677	−1,270	−2,046	−2,218	−2,601	(2)

[1] See footnotes which accompany table 4.

[2] Not available.

Source: Congressional Budget Office.

TABLE 4—CONGRESSIONAL BUDGET OFFICE REVISED OUTLAY IMPACT FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1984 BY PROVISION

[—(minus) means decrease in outlays in millions of dollars]

Provision	Fiscal year				
	1985	1986	1987	1988	1989
Social Security—OASI					
Improve the administration of the earnings test	−22	−15	−15	−15	−14
Social Security—DI					
Termination of benefits based on medical improvement:					
DI	86	123	130	136	133
HI and SMI	25	35	40	40	40
Medicaid	3	4	4	4	4
SSI	3	4	4	4	4
Multiple impairments:					
DI	4	7	11	13	15
HI and SMI	(1)	(1)	1	2	2
Medicaid	(1)	1	1	1	1
SSI	1	2	2	3	3
Continued payment during appeal:					
DI	149	134	114	60	−20
HI and SMI	48	50	40	15	0
Medical personnel qualifications:					
DI	(1)	(1)	10	10	20
HI and SMI	(1)	(1)	1	1	3
Medicaid	(1)	(1)	1	1	2
SSI	(1)	(1)	2	2	5
Vocational rehabilitation	2	4	7	8	8
Extension of secs. 1619a and 1619b:					
Medicaid	10	7	6	0	0
SSI	1	2	2	0	0
Total [2]	311	348	351	289	204
DI[1]	220	243	247	216	140
HI and SMI	73	85	82	58	45
Medicaid	13	12	12	6	7
SSI	5	8	10	9	12
Supplemental Security Income					
Increase asset limits	3	15	30	40	50
Limit recoupment rate in case of overpayments	22	2	2	2	2
Limit on recovery of overpayments when recipient has excess resources	2	2	2	2	2
Exclusion of retroactive payments from resources	Neg.	Neg.	Neg.	....	....

TABLE 4—CONGRESSIONAL BUDGET OFFICE REVISED OUTLAY IMPACT FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1984 BY PROVISION—Continued

[—(minus) means decrease in outlays in millions of dollars]

Provision	Fiscal year				
	1985	1986	1987	1988	1989
Adjustments in SSI and OASDA benefits on account of retroactive payments	−5	−5	−5	−6	−6
Exclusion from income of Alaska bonus payment	1	1	1	1	1
Income and eligibility verfication procedures	5	−75	−85	−55	−55
Total—SSI	31	−54	−44	0	20
SSI	28	−60	−55	−16	−6
Food Stamp	1	−4	−4	−9	−9
Medicaid	2	10	15	25	35
Aid to Families with Dependent Children					
185 percent gross income limit	5	10	10	10	10
Raise part-time work expense deduction	20	20	20	20	20
Continue $30 for 12 months	10	10	10	10	10
Optional MRRB	(3)	(3)	(3)	(3)	(3)
Count EITC only when received	8	3	3	3	3
Exempt burial plots	3	3	3	3	3
Reimburse CWEP expenses	5	5	5	5	5
Integrated service delivery	0	2	2	2	2
Clarify earned income definition	−24	−24	−24	−24	−24
Standard filing unit	−135	−140	−145	−150	−150
$50 child support disregard	115	115	115	120	120
Income verification	(1)	−30	−20	−10	−15
Total	133	128	153	188	193
AFDC	7	−26	−21	−11	−16
Medicaid	145	175	195	215	225
Food Stamp	−19	−21	−21	−16	−16
Child Support Enforcement					
Alter incentive payments to States		15	15	17	19
Reduce Federal matching to 68 percent in fiscal year 1988; 66 percent in fiscal year 1990				−20	−20
Require application fees; optional late payment fees	−5	−10	−10	−15	−15
Mandate State enforcement techniques	−15	−25	−25	−30	−30
Require IRS tax intercept for non-AFDC families thru fiscal year 1989	25	20	10	0	0
Authorize funds for interstate projects	7	12	15	15	15

TABLE 4—CONGRESSIONAL BUDGET OFFICE REVISED OUTLAY IMPACT FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1984 BY PROVISION—Continued

[—(minus) means decrease in outlays in millions of dollars]

Provision	Fiscal year				
	1985	1986	1987	1988	1989
Provide Medicaid for 4 months for families losing AFDC due to child support collection through fiscal year 1988 (Medicaid)	25	25	30	35	....
Other provisions	15	20	10	5	....
Impact on CSE case levels:					
CSE expenditures	10	30	55	90	100
Offsetting effects on public assistance	−5	−20	−30	−50	−55
Total	57	67	70	47	14
AFDC	−15	−20	−30	−38	−36
CSE	52	87	110	110	115
Medicaid	20	10	10	0	−40
Food stamps		−10	−20	−25	−25
EITC					
Earned income tax credit [4]		257	237	217	200
Social Services					
Social Services Block Grant		25			
Medicare					
Delay implementation of single limit for SNF's	30	35	40	45	50
Hospital rate of increase	0	−180	−250	−280	−320
Establish fee schedule for clinical lab services	−240	−300	−380	−325	−400
(Medicaid)	(−49)	(−57)	(−67)	(−60)	(−69)
Hepatitis B vaccine	−1	−2	−2	−4	−4
Physician fee freeze	−720	−840	−.950	−950	−1,000
(Medicaid)	(−14)	(−16)	(−18)	(−18)	(−19)
Limitation on certain foot services	−11	−11	−12	−13	−13
Part B premium increase	0	−384	−884	−1,052	−1,110
Premium decrease due to other savings	187	246	288	266	271
(Medicaid)	−14	10	45	60	64
Revaluation of assets	−25	−45	−70	−90	−115
Competitive contracting	−15	−25	−33	−38	−38
Lesser of costs and charges	−45	−55	−65	−75	−85
Coinsurance for DME	−20	−25	−25	−30	−30
Working aged	−260	−380	−415	−380	−400
Payment rate for routine home care under hospice program (Public Law 87–617)	1	3	0	0	0
Total medicare/provisons	−1,196	−2,026	−2,798	−2,944	−3,218
Medicare	−1,306	−1,825	−2,162	−2,140	−2,355
Medicaid	−77	−63	−40	−18	−24
Premiums	187	−138	−596	−786	−839

[1] Less than $500,000.

[2] The details do not add to the totals to interaction between provisions.

[3] Savings or costs of less than $5 million annually.

[4] Only outlay portion of credit. In addition, there is a revenue loss of $4 million, $116 million, $105 million and $98 million for fiscal years 1985 to 1988 respectively.

Source: Congressional Budget Office.

TABLE 5.—NUMBER OF FAMILIES IMPACTED FOR SELECTED CHANGES ENACTED DURING 1984

	Number of families affected
Standard filing unit	40,000 ineligible. 300,000 lose benefits but remain eligible.
$50 child support disregard	25,000 newly eligible. 335,000 gain benefits.
Medicaid work transition	35,000 current cases. 20,000 retrospective cases.

Note.—The number of families affected is difficult to estimate because of the interaction among provisions.

APPENDIX J. CHARACTERISTICS AND POVERTY STATUS OF FAMILIES WITH CHILDREN AND COMBINED IMPACT OF AFDC, FOOD STAMPS AND FEDERAL TAXES ON FAMILIES: SELECTED YEARS 1960 TO 1984

POVERTY DATA

How Poverty Is Measured

When the Federal Government began measuring poverty in the early 1960's, the continued existence of poor people in a time of the "Affluent Society" seemed anomalous. Official concern soon translated into efforts to measure the size of the poverty population, and the search began for programmatic ways to alleviate poverty. The first rough estimates of the incidence of poverty were based on survey data indicating that families generally spent about one-third of their income for food. A poverty level income was then calculated by using as a yardstick the amount of money necessary to purchase the lowest cost "nutritionally adequate" diet calculated by the Department of Agriculture (roughly equivalent to the current Thrifty Food Plan). This price tag was multiplied by 3 to produce a poverty threshold. Thus, this procedure assumed that if a family did not have enough income to buy the lowest nutritionally adequate diet, and twice that amount for other goods and services, it was "poor." Appropriate adjustments were made for the size of the family, sex of family head, and for whether the family lived on the farm or not. Farm families were assumed not to need as much cash income because more of their needs could be met through farm products—particularly food. (Differentials for sex of family head and for farm-nonfarm residence were abolished in 1981.) Policy officials made one change to the basic approach for calculating the level of poverty in 1969. Current poverty levels are established each year simply by increasing the previous year's level by the change in the Consumer Price Index (CPI) rather than multiplying the cost of the Thrifty Food Plan by 3. The poverty thresholds for selected years are shown in table 1.

TABLE 1.—WEIGHTED AVERAGE POVERTY THRESHOLDS FOR NONFARM FAMILIES OF SPECIFIED SIZE, SELECTED YEARS, 1959–84

Calendar year	Unrelated individuals			Families of 2 or more persons							
	All ages	Under age 65	Aged 65 or older	2 persons			3 persons	4 persons	5 persons	6 persons	7 persons or more
				All ages	Head under age 65	Head aged 65 or older					
1959	$1,467	$1,503	$1,397	$1,894	$1,952	$1,761	$2,324	$2,973	$3,506	$3,944	$4,849
1960	1,490	1,526	1,418	1,924	1,982	1,788	2,359	3,022	3,560	4,002	4,921
1965	1,582	1,626	1,512	2,048	2,114	1,906	2,514	3,223	3,797	4,264	5,248
1970	1,954	2,010	1,861	2,525	2,604	2,348	3,099	3,968	4,680	5,260	6,468
1975	2,724	1,797	2,581	3,506	3,617	3,257	4,293	5,500	6,499	7,316	9,022
1976	2,884	2,959	2,730	3,711	3,826	3,445	4,540	5,815	6,876	7,760	9,588
1977	3,075	3,152	2,906	3,951	4,072	3,666	4,833	6,191	7,320	8,261	10,216
1978	3,311	3,392	3,127	4,249	4,383	3,944	5,201	6,662	7,880	8,891	11,002
1979	3,689	3,778	3,479	4,725	4,878	4,390	5,784	7,412	8,775	9,914	12,280
1980	4,190	4,290	3,949	5,363	5,537	4,983	6,565	8,414	9,966	11,269	[1] 12,761
1981	4,620	4,729	4,359	5,917	6,111	5,498	7,250	9,287	11,007	12,449	[1] 14,110
1982	4,901	5,019	4,626	6,281	6,487	5,836	7,693	9,862	11,684	13,207	[1] 15,036
1983	5,061	5,180	4,775	6,483	6,697	6,023	7,938	10,178	12,049	13,630	15,500
1984 (est.)	5,280	5,400	4,980	6,760	6,980	6,280	8,280	10,610	12,560	14,210	16,160

[1] Poverty threshold for 7 persons, not 7 persons or more.

Source: Bureau of the Census and Social Security Administration.

TRENDS IN THE OVERALL POVERTY RATE [1]

About 15.2 percent of the U.S. population, 35.3 million people, had family incomes below the official poverty threshold in 1983. This is the fifth consecutive increase in the poverty rate. The poverty rate in 1983 is at its highest level since 1965.

This section focuses on historical data for the time period 1959-83. Throughout this time period there were substantial differences between the overall poverty rate and the poverty rate of certain demographic subgroups (table 2). The overall poverty rate declined from 22.4 percent in 1959 to 11.1 in 1973, and has since climbed to 15.2 percent. While the rates for some demographic groups have declined, a number of rates have remained relatively high. The poverty rate for blacks failed to fall below 30.3 percent over this period. The rate for individuals in a family with a female head did not fall below 32 percent. The poverty rate for children was higher than 14 percent throughout these years.

The trends for these and other demographic groups are described below using the official census definition of poverty which is based upon pretax cash income. The census poverty rate is one measure of poverty that has been fairly standard over time. This type of measure can be useful in measuring progress against poverty. However, it should be noted that the method of estimating the poverty threshold was revised by the Census Bureau four times over this period—in 1966, 1974, 1979, and 1981. These revisions have had an impact upon the number of people in poverty. The first two revisions slightly reduced the number of poor, while the more recent changes increased the number.

---

[1] All poverty trend information is based upon published Census Bureau data contained in "Money Income and Poverty Status of Families: 1978," p-60, No. 124, "Money Income and Poverty Status of Families: 1982," p-60, No. 140, and "Money Income and Poverty Status of Families and Persons in the United States: 1983." All figures for children are for related children under 18 in families. These figures may differ with other parts of this report which provide a more refined breakdown of this age category. Data for blacks, the aged, and nonaged population were not available for the years 1961 to 1965.

TABLE 2.—POVERTY RATES AND NUMBERS OF PEOPLE IN POVERTY FOR SELECTED DEMOGRAPHIC GROUPS OVER TIME

	1959	1966	1970	1975	1978	1979	1980	1981	1982	1983
Overall number in poverty (in thousands)	39,490	28,510	25,420	25,877	24,497	26,072	29,272	31,822	34,398	35,266
Poverty rate (percent)	22.4	14.7	12.6	12.3	11.4	11.7	13.0	14.0	15.0	15.2
Aged:										
Number (in thousands)	5,481	5,114	4,709	3,317	3,233	3,682	3,871	3,853	3,751	3,711
Poverty rate (percent)	35.2	28.5	24.5	15.3	14.0	15.2	15.7	15.3	14.6	14.1
Children:										
Number (in thousands)	17,208	12,146	10,235	10,882	9,722	9,993	11,114	12,068	13,139	13,326
Poverty rate (percent)	26.9	17.4	14.9	16.8	15.7	16.0	17.9	19.5	21.3	21.7
Nonaged adults:										
Number (in thousands)	16,801	11,250	10,476	11,678	11,542	12,397	14,287	15,901	17,508	18,229
Poverty rate (percent)		10.6	9.2	9.4	8.9	9.1	10.3	11.3	12.3	NA
Individuals in female headed families:										
Number (in thousands)	10,390	10,250	11,154	12,268	12,880	13,503	14,649	15,738	16,336	16,772
Poverty rate (percent)	50.2	41.0	38.2	34.6	32.3	32.0	33.8	35.2	36.2	35.7
Blacks:										
Number (in thousands)	9,927	8,867	7,548	7,545	7,625	8,050	8,579	9,173	9,697	9,885
Poverty rate (percent)	55.1	41.8	33.5	31.3	30.6	31.0	32.5	34.2	35.6	35.7
Whites:										
Number (in thousands)	28,484	19,290	17,484	17,770	16,259	17,214	19,699	21,553	23,517	23,974
Poverty rate (percent)	18.1	11.3	9.9	9.7	8.7	9.0	10.2	11.1	12.0	12.1

NA—Not available.

Source: "Money Income and Poverty Status of Families and Persons in the United States: 1983," p–60, No. 145.

TABLE 3.—COMPOSITION OF POVERTY POPULATION FOR SELECTED DEMOGRAPHIC GROUPS

[Percent of poverty population]

	1959	1966	1975	1982	1983
Aged	13.9	17.9	12.8	10.9	10.5
Children	43.6	42.6	42.1	38.2	37.8
Nonaged adults	42.5	39.5	45.1	50.9	51.7
Individuals in female-headed families	26.3	36.0	47.4	47.5	47.6
Individuals in other families	73.7	64.0	52.6	52.5	52.4
Blacks	25.1	31.1	29.2	28.2	28.0
Whites	72.1	67.7	68.7	68.4	68.0
Other	2.8	1.2	2.1	3.4	4.0

Source: Estimates based on data from "Money Income and Poverty Status of Families and Persons in the United States: 1983," p-60. No. 145.

In the late 1950's and early 1960's the number of poor persons in the United States stood around 39.5 million, representing approximately 22 percent of the total population. Between 1959 and 1969 this number declined at an annual rate of roughly 1.5 million per year. The largest decline in the number of people below the poverty threshold for this 10-year period occurred between 1964 and 1969. From 1969 to 1971 the rate stayed about the same, perhaps as a result of the sluggish economy. From 1971 to 1973 the rate continued to decline, but at a slower pace than in the earlier period. In 1973 the overall poverty rate was 11.1 percent, its lowest level over the entire 24-year period. This rate represented 23.0 million individuals in families with incomes below the poverty threshold. During the recession of 1974 and 1975 the rate increased slightly to 12.3 percent. From 1975 through 1978 the rate varied between 11.4 percent and 12.3 percent. Since 1978, the poverty rate has increased. By 1983 the overall rate had increased 33.3 percent from its 1978 level, to 15.2 percent.

POVERTY RATES BY FAMILY TYPE [2]

Female-headed families with children, and unrelated individuals are more likely to be poor than other families with children or families with aged members. Table 4 shows that in 1983, 47.8 percent of female-headed families with children were poor, as opposed to 10.5 percent of all other families. Although only about 8.8 percent of all families with an aged member were poor, 26.5 percent of all aged unrelated individuals were poor. About 22.1 percent of nonaged unrelated individuals were poor.

---

[2] Income figures reported in this section were derived from the March 1984 Current Population Survey (CPS) computer data tape. There is a tendency in surveys, such as the CPS, for respondents to underreport their incomes by both source and amount. Reporting of income from earnings is usually more accurate than the reporting of income from other sources. In general, CPS estimates of amounts or numbers of recipients of various cash and noncash transfer programs tend to be lower than administrative program totals. As a result, the data are a better reflection of general trends and patterns than of absolute numbers with income from a particular source, or the amount received.

Unrelated subfamilies are included as families in this analysis. The Census Bureau excludes such families from its poverty counts.

TABLE 4.—PERCENTAGE OF FAMILIES AND UNRELATED INDIVIDUALS BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD,[1] 1983

	Ratio of total income to poverty threshold								Poor	Nonpoor	Total (in thousands)
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over			
Total:											
In families	5.0	3.6	4.0	4.4	4.8	10.0	20.2	47.9	12.6	87.4	62,501
Unrelated individuals	8.6	5.3	9.4	7.9	6.4	11.4	18.1	32.9	23.4	76.6	29,257
No members age 65 or over:											
In families	5.6	3.9	3.9	4.2	4.4	9.3	19.6	49.0	13.5	86.5	51,084
Unrelated individuals	10.8	5.2	6.0	5.0	4.6	10.3	19.0	39.0	22.1	77.9	20,666
Any member age 65 or over:											
In families	2.1	2.4	4.3	5.2	6.2	13.5	22.9	43.4	8.8	91.2	11,417
Unrelated individuals	3.3	5.5	17.7	14.7	10.7	14.0	16.0	18.2	26.5	73.5	8,591
Families with children:											
Female headed family, no husband present	23.6	14.2	10.0	8.1	6.7	11.9	15.8	9.7	47.8	52.2	6,954
All other families	3.4	3.1	4.0	4.7	5.2	11.2	24.3	44.1	10.5	89.5	26,177

[1] Based on census ("Orshansky") poverty levels.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

INCOME OF FAMILIES WITH CHILDREN

Table 5 shows the percent of female-headed families with an absent husband which received income from various sources. The table shows that the percentage of female-headed families with earnings (wages, salaries, self-employment and farm income), alimony or child support, interest and dividends, and social security, tends to increase with distance above the poverty threshold. In turn, families below the poverty threshold are more likely to receive public cash assistance, presumably AFDC, and food stamps—a form of near-cash assistance.

Nearly half (46 percent) of all poor female-headed families with children had income from earnings. However, earnings, on average, accounted for about 32 cents of every dollar of income received (table 6). Seven out of ten poor families between 75 and 100 percent of poverty had income from earnings; for these families, earnings accounted for nearly half (46 percent) of total income. In contrast, 95 percent of nonpoor female-headed families had earnings which accounted for 78 percent of their total income.

TABLE 5.—PERCENT OF FEMALE-HEADED FAMILIES WITH CHILDREN WITH INCOME FROM VARIOUS SOURCES, BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD,[1] 1983

	Ratio of total income to poverty threshold									
	Under 0.05	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Number of families (in thousands)	(1,640)	(988)	(696)	(562)	(464)	(830)	(1,098)	(676)	(3,324)	(3,630)
Earnings	37.1	45.0	70.0	87.1	92.1	95.9	98.1	97.3	46.3	95.0
OASDI, railroad retirement	7.0	12.1	18.7	19.6	17.1	19.1	16.2	21.9	11.0	18.6
Pensions	.1	1.1	2.2	1.2	2.4	2.5	3.7	5.6	.9	3.2
Unemployment compensation, workers compensation, veterans payments	5.7	8.8	16.5	17.4	16.3	11.1	13.5	11.6	8.9	13.6
AFDC, SSI, general assistance	62.9	72.9	51.5	23.7	15.6	9.7	5.0	3.0	63.5	10.0
Child support, alimony	15.9	17.9	28.9	29.9	36.7	42.2	45.8	50.3	19.2	42.1
Interest, dividends	10.3	11.0	21.0	24.5	33.9	44.8	58.2	75.6	12.8	50.0
Food Stamps	69.4	77.6	58.2	25.3	14.8	7.7	3.5	1.1	69.5	8.9

[1] Based on census ("Orshansky") poverty levels.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

TABLE 6.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD FOR FEMALE-HEADED FAMILIES WITH CHILDREN, 1983 [1]

	Ratio of total income to poverty threshold								Poor	Nonpoor
	Under 0.05	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	21.0	27.3	46.2	65.1	74.7	78.9	82.5	77.7	32.1	78.2
OASDI, railroad retirement	5.8	7.3	10.8	11.0	8.5	9.2	4.5	4.4	8.1	6.2
Pensions	.0	.2	.8	.3	.8	.7	1.0	1.1	.4	.9
Unemployment compensation, workers compensation, veterans payments	2.9	3.2	3.8	4.1	3.5	1.3	1.4	1.2	3.3	1.7
AFDC, SSI, general assistance	61.1	56.0	29.2	10.3	4.2	1.8	.7	.3	48.1	1.8
Child support, alimony	8.6	5.5	8.2	8.4	7.7	6.9	7.6	8.9	7.3	8.0
Interest, dividends	.6	.5	1.1	.8	.7	1.3	2.3	6.4	.7	3.2
Food stamps [2]	(50.0)	(23.1)	(9.6)	(3.3)	(1.1)	(.6)	(.1)	(.0)	(26.1)	(.5)

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps is not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

It is interesting to note that nonpoor female-headed families were more than twice as likely as poor families to have received child support or alimony—42 percent compared to about 19 percent. For poor and nonpoor female-headed families alike, child support amounted to about 7 to 8 percent of total income.

Cash public assistance—mostly AFDC—was the major source of income received by the 3.3 million poor female-headed families with children in 1983. Approximately 64 percent of these families received cash public assistance which, on average, accounted for about 48 cents of every dollar received.

Food stamps, although not cash income, were an important source of income to poor female-headed families.[4] Nearly 70 percent received food stamps at some time during the year. For each dollar of cash income received, food stamps, on average, provided an additional 26 cents.

Among all other families (mostly married couple families) with children who were poor, earnings, on average, were the largest component of total income (see tables 7 and 8). Some 81.3 percent of all such families had income from earnings, which accounted for 68 cents of every dollar received. About 23 percent of poor families received income from either unemployment compensation, workers' compensation, or veterans' payments, which was about the same as the percentage of nonpoor families receiving income from these sources. These sources accounted for about 8 cents of every dollar received by the poor, and about 2 cents of every dollar received by the nonpoor. As table 8 shows, about 27 percent of poor families headed by a male received cash public assistance, which, on average, accounted for 15 cents of each dollar which all poor families received.

---

[4] The cash value of food stamps was not included as part of total income for purposes of either determining poverty status, or in the base for calculating the percentage share of total income.

TABLE 7.—PERCENT OF ALL OTHER FAMILIES WITH CHILDREN WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] 1983

	Ratio of total income to poverty threshold								Poor	Nonpoor
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Number of families (in thousands)	(896)	(815)	(1,048)	(1,235)	(1,372)	(2,921)	(6,359)	(11,532)	(2,759)	(23,418)
Earnings	72.1	75.6	92.6	95.4	97.6	98.9	99.5	99.9	81.3	99.3
OASDI, railroad retirement	5.1	12.8	8.0	8.7	7.6	6.0	5.3	4.0	8.7	5.1
Pensions	.6	1.7	2.0	2.5	2.5	3.5	4.1	4.3	1.5	3.9
Unemployment compensation, workers compensation, veterans payments	17.4	25.7	25.1	31.3	25.5	28.5	23.0	15.5	23.0	20.6
AFDC, SSI, general assistance	31.6	36.5	16.8	10.0	7.0	4.1	2.3	.5	27.3	2.3
Child support, alimony	7.8	7.5	10.7	11.1	9.6	10.6	11.9	12.4	8.8	11.8
Interest, dividends	19.5	21.4	27.5	34.9	42.1	51.3	67.5	84.5	23.2	70.5
Food stamps	53.3	56.3	33.4	23.8	14.6	5.4	2.2	.3	46.4	3.6

[1] Based on census ("Orshansky") poverty Levels.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

TABLE 8.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] FOR ALL OTHER FAMILIES WITH CHILDREN

	Ratio of total income to poverty threshold								Poor	Nonpoor
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	56.0	55.8	77.6	82.2	88.2	90.3	93.0	93.3	67.7	92.7
OASDI, railroad retirement	3.9	7.7	4.6	4.4	3.1	2.1	1.3	.5	5.5	.9
Pensions	.2	.9	.7	1.2	.7	.9	1.1	.8	.7	.9
Unemployment compensation, workers compensation, veterans payments	8.8	8.6	7.4	7.6	4.4	4.1	2.2	.8	8.0	1.5
AFDC, SSI, general assistance	27.5	24.3	6.6	2.4	1.4	.5	.2	.0	15.1	.2
Child support, alimony	2.2	1.8	2.0	1.4	.9	.9	.7	.6	2.0	.6
Interest, dividends	1.4	.9	1.0	.9	1.2	1.3	1.5	4.0	1.1	3.1
Food stamps [2]	(31.9)	(13.6)	(3.9)	(2.0)	(.9)	(.2)	(.1)	(.0)	(11.0)	(.1)

---

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps is not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

Poor married couple families, and other families with children, were much less likely than female-headed families to have received food stamps. Only about 46 percent of poor married couple families received food stamps, compared to 70 percent of female-headed families.

ANTIPOVERTY EFFECTIVENESS OF VARIOUS CASH AND NEAR-CASH INCOME SOURCES

This section explores the effectiveness of various income sources in addressing poverty. As shown earlier, families differ markedly by the combinations of income upon which they rely for support. The data for aged individuals is analyzed in Appendix B.

One way of assessing the antipoverty effectiveness of various income sources is to estimate the number of persons who would be counted as poor if a particular source of income were not received (table 9). The additional number of persons that are counted as poor provides an estimate of the number of people lifted out of poverty by a particular income source. For example, the effect of social security upon poverty can be seen by comparing the number who would be counted as poor if they did not receive social security, with the number of poor after social security income is counted.

Another way of assessing the effectiveness of various income sources upon poverty is by estimating the degree to which those sources reduce the gap between a poor family's income and the poverty threshold (table 10). This concept is sometimes known as the "poverty gap" or the "poverty income deficit." A cash transfer program which is highly targeted on the poor may do little to eliminate poverty—that is, to reduce the number who are counted as poor—but such a program may still have a very real impact by reducing the degree of poverty as viewed in terms of the poverty gap.

Tables 9 and 10 show the relative antipoverty effect of various income sources in 1983, upon children, nonaged adults, and the total population. Table 9 shows the estimated number of poor persons and the poverty rate which would result under various income definitions. For example, the first column shows the number of persons who were poor, and the poverty rate, in 1983. The second column shows how many persons would be poor if they had only earnings and miscellaneous sources of income (interest, dividends, alimony and child support) upon which to depend. Similarly, the third column shows how many persons would be counted as poor if they had all sources of income currently available to them, except for social security and railroad retirement. The relative effect of each source can be seen by comparing the number in poverty under the alternate income definitions with the first column. For purposes of illustration, the cash value of food stamps is also included even though food stamps are not included as income under the existing official definition of poverty. Table 10 is similar to table 9, except that it shows the aggregate poverty gap (in millions of dollars) and average poverty gap[5] per poor person. The aggre-

---

[5] The average poverty gap per poor person is the total family poverty gap divided by the number of family members. Since poverty is based on a family income definition, completely

Continued

gate poverty gap is the amount of dollars that would be required to give all persons in poverty an income equal to the poverty line.

---

filling the poverty gap for children, for example, would not remove all children from poverty, since the poverty gap for other family members would have to be reduced as well.

TABLE 9.—PERSONS IN POVERTY UNDER VARIOUS INCOME CONCEPTS, BY AGE GROUP: 1983

	Total income official poverty measure	Only earnings, dividends, interest, and miscellaneous income	Total income less				Total income plus food stamps
			Social security, railroad retirement	Pensions	Unemployment compensation, worker's compensation, veterans pension	AFDC,SSI, general assistance	
Total (in thousands)	35,267	58,760	52,241	37,785	38,633	37,322	33,584
Children (less than 18)	13,807	16,248	15,678	13,995	14,787	14,306	13,100
Persons age 18–64	17,749	26,103	23,155	19,215	19,761	18,785	16,933
Total (percent)	15.2	25.4	22.6	16.3	16.7	16.1	14.5
Children (less than 18)	22.2	26.1	25.2	22.5	23.8	23.0	21.1
Persons age 18–64	12.4	18.2	16.2	13.4	13.8	13.1	11.8
Total (percentage change)			−32.5	−6.7	−8.7	−5.5	−4.8
Children (less than 18)			−11.9	−1.3	−6.6	−3.5	−5.1
Persons age 18–64			−23.4	−7.6	−10.2	−5.5	−4.6

TABLE 10.—POVERTY GAP UNDER VARIOUS INCOME CONCEPTS, BY AGE GROUP: 1983

	Total income official poverty measure	Only earnings, dividends, interest, and miscellaneous income	Total income less				Total income plus food stamps
			Social security, railroad retirement	Pensions	Unemployment compensation, worker's compensation, veterans pension	AFDC,SSI, general assistance	
Total aggregate poverty gap (in millions)	$47,082	$130,445	$96,679	$52,066	$54,479	$63,787	$40,383
Children (less than 18)	15,869	26,945	19,946	16,155	17,623	22,341	12,495
Persons age 18–64	27,096	55,618	41,599	30,089	31,910	34,975	24,047
Total average gap per poor person [1]	$1,335	$2,220	$1,851	$1,378	$1,410	$1,709	$1,202
Children (less than 18)	1,149	1,658	1,272	1,154	1,192	1,562	954
Persons age 18–64	1,527	2,131	1,797	1,566	1,615	1,862	1,420
Total percentage change in aggregate gap			−51.3	−9.6	−13.6	−26.2	−14.2
Children (less than 18)			−20.4	−1.8	−10.0	−29.0	−21.3
Persons age 18–64			−34.9	−9.9	−15.1	−22.5	−11.3

---

[1] The average poverty gap per poor person is the total family poverty gap divided by the number of family members. Since poverty is based on a family income definition, completely filing the gap for children, for example, would not remove all children from poverty, since the poverty gap for other family members would have to be reduced as well.

Table 11 focuses on female-headed families with children and examines the antipoverty effectiveness of cash and noncash transfers from 1979 to 1983. In 1979, 301,000 female-headed families with children were removed from poverty due to cash transfers other than Social Security (primarily AFDC). With the addition of food stamp and housing benefits, this increases to 892,000 families. In 1983, 137,000 families were removed from poverty due to cash transfers and 583,000 due to cash, food and housing transfers.

Perhaps a better way of examining the effectiveness of the public assistance system is to calculate the poverty gap after cash and noncash transfers. In 1979, the poverty gap of female-headed families was reduced by 43.7 percent with cash transfers other than Social Security. This declined to 35.3 percent in 1983.

TABLE 11.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS FOR FEMALE-HEADED FAMILIES WITH CHILDREN, 1979 TO 1983

	1979	1980	1981	1982	1983
Number of poor families (thousands):					
After Social Security	2,693	2,922	3,109	3,234	3,255
After other cash transfers	2,392	2,703	2,877	3,059	3,118
After food and housing benefits [1]	1,801	2,178	2,385	2,599	2,672
After all noncash transfers [2]	1,702	2,022	2,272	2,443	2,524
Number of families (thousands) removed from poverty due to:					
Other cash transfers	301	219	232	175	137
Percent	11.2	7.5	7.5	5.4	4.2
Cash, food and housing benefits [1]	892	744	724	635	583
Percent	33.1	25.5	23.3	19.6	17.9
Poverty gap (millions):					
After Social Security	12,714	15,361	18,262	20,436	21,623
After other cash transfers	7,157	9,028	11,249	13,108	14,000
After all noncash transfers [2]	3,819	4,584	6,094	6,985	7,675
Percentage reduction in poverty gap:					
After cash transfers	43.7	41.2	38.4	35.9	35.3
After all noncash transfers [2]	70.0	70.2	66.6	65.8	64.5

[1] Food and housing transfers valued under the market value approach.
[2] Noncash transfers valued under the poverty budget share approach.

Source: Technical Reports 51 and 52, Bureau of the Census.

To a large extent, the analysis of poverty and the effectiveness of Government programs is summarized in figure 2. The four concepts used in the graph are:

1. *Pretransfer income* includes only income derived from market sources and excludes government transfers.
2. *Post social insurance income* includes market income and government cash social insurance transfers, but excludes cash welfare transfers.
3. *Postwelfare income* includes market income, cash social insurance transfers, and cash welfare transfers. The official poverty thresholds use this concept.

4. *Adjusted income* includes market income, cash social insurance transfers, cash welfare transfers, in-kind transfers, adjustments for taxes, and corrections for underreporting of income in the data used for poverty analysis.

Figure 1 shows some trends in the percent of persons in poverty from 1965 to 1982 that were presented by Danziger.[6] Whether the poverty rate has increased, decreased, or remained constant depends upon the definition of income. In general, from 1968 through 1978 the post social insurance and post welfare poverty rates stayed relatively constant at 13 to 14 percent. The pretransfer poverty rate increased, however, while the adjusted poverty rate declined dramatically.

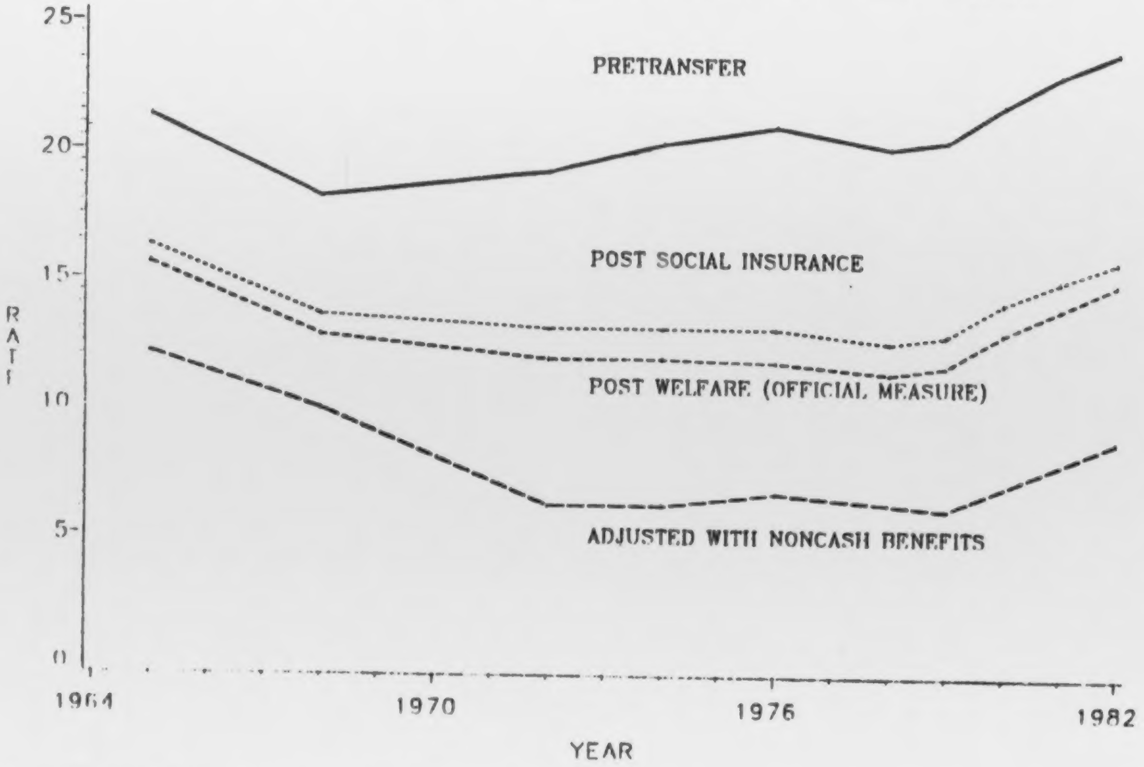
However since 1978, all income concepts show a large and dramatic increase in poverty.

1. The pretransfer poverty rate in 1978 of 20 percent was nearly as high as it was in 1965 at 21 percent. There was a 3 percentage point drop between 1965 and 1968, but the rate rose back to 21 percent by 1976.
2. The post social insurance poverty rate dropped from 16 percent in 1965 to between 13 and 14 percent in 1968. There was little change in post social insurance poverty between 1968 and 1978.
3. The postwelfare poverty rate, the official measure, dropped from 16 percent to 13 percent between 1965 and 1968, but declined only slightly thereafter.
4. The adjusted poverty rate declined in every period except 1972 to 1974. Taxes had a minimal effect. Because health benefits are more than two-thirds of in-kind benefits, they account for a large proportion of this trend.

---

[6] Sheldon Danziger, "Alternative Measures of the Recent Rise in Poverty," testimony before U.S. House Committee on Ways and Means, Oct. 18, 1983.

FIGURE 1.—TRENDS IN THE INCIDENCE OF POVERTY AMONG PERSONS BY INCOME CONCEPT



Source: Sheldon Danziger, "Alternative Measures of the Recent Rise in Poverty," testimony before U.S. House Committee on Ways and Means, Oct. 18, 1983.

POVERTY GAP DATA OVER TIME

Table 12 illustrates the aggregate poverty gap in current and constant 1983 dollars for selected years by family type. The total gap increased from $14.7 billion in 1975 to $47.1 billion in 1983. In constant dollars, this was an increase from $27.3 billion to $47.1 billion; an increase of 73 percent. The largest increase in percentage terms was for female head of families. The poverty gap increased from $8.0 billion to $15.1 billion in constant 1983 dollars; an increase of over 88 percent.

TABLE 12.—AGGREGATE POVERTY GAP IN CURRENT AND CONSTANT 1983 DOLLARS FOR SELECTED YEARS, BY FAMILY TYPE [1]

[In millions of dollars]

Family type	1975	1979	1980	1981	1982	1983
	Current dollars					
Total	14,719	24,033	31,075	37,617	43,826	47,082
Total in families	9,505	14,708	19,771	24,653	30,180	31,833
No family members age 65 or over	8,660	13,182	17,910	22,554	27,707	29,114
Female headed families [2]	4,341	7,260	9,389	12,000	14,044	15,127
All other families	4,320	5,921	8,521	10,553	13,664	13,987
Any family member age 65 or over	845	1,526	1,861	2,099	2,473	2,719
Total unrelated individuals	5,214	9,325	11,304	12,964	13,646	15,249
Less than 65	3,931	7,194	8,912	10,210	10,693	12,437
65 and over	1,283	2,131	2,392	2,754	2,954	2,812
	Constant 1983 dollars [3]					
Total	27,250	32,980	37,564	41,201	45,229	47,082
Total in families	17,597	20,184	23,900	27,002	31,146	31,833
No family members age 65 or over	16,033	18,089	21,650	24,703	28,594	29,114
Female headed families [2]	8,037	9,963	11,350	13,143	14,494	15,127
All other families	7,998	8,125	10,300	11,558	14,101	13,987
Any family member age 65 or over	1,564	2,094	2,250	2,299	2,552	2,719
Total unrelated individuals	9,653	12,797	13,665	14,199	14,083	15,249
Less than 65	7,278	9,872	10,773	11,183	11,035	12,437
65 and over	2,375	2,924	2,892	3,016	3,049	2,812

[1] The poverty gap is the difference between a poor family's income and the Census Bureau's poverty threshold. The poverty gap shown in this table is slightly higher than that reported by the Census Bureau due to unrelated subfamilies being counted as families.

[2] Female headed families with an absent husband.

[3] Earlier year data converted to constant 1983 dollars by the CPI–U price index.

Note.—Table prepared by the Congressional Research Service from the March 1984, 1983, 1982, 1981, and 1980 Current Population Survey, and the 1976 Survey of Income and Education (SIE).

FEDERAL TAX TREATMENT OF FAMILIES NEAR POVERTY

Through the 1960's and 1970's Congress attempted, in several tax reduction bills, to eliminate the tax burden on families whose incomes were below the poverty line. The legislative history of the tax cut bills enacted in 1969, 1975, 1976, 1977, and 1978 indicates a congressional desire to increase the level of income at which a family begins to pay income tax (termed the tax threshold or, alternatively, the tax entry point) above the poverty level. Several tools have been used to achieve this goal: the personal exemption, the standard deduction (now termed the zero bracket amount) and the earned income tax credit.

In the past few years, however, these provisions have not kept pace with inflation, and as a result the income tax threshold has fallen well below the poverty line. In 1985 this trend will be modestly reversed because starting in this year the zero brack amount and personal exemptions are indexed for inflation, and the earned income credit is expanded. However, after 1985 the shortfall will start to grow again for some families because the earned income tax credit is not indexed.

Table 13 shows the income tax threshold and the poverty line for a family of four for selected years between 1959 and 1985. In 1960, the tax threshold was 10.3 percent below the poverty line. As a result of the 1964 tax cuts, the gap between the two was cut to 6.9 percent by 1965. By 1969, inflation had increased the gap to 19.9 percent, and Congress responded by tax reductions in 1969 and 1971 which succeeded in eliminating the gap in 1972. The rapid inflation of 1973-74 caused the gap to reemerge, and in 1975 the tax cuts were so structured that the tax threshold was raised 21.7 percent above the poverty line. The earned income tax credit, enacted that year, was designed not only to remove poor people from the income tax rolls but also, through its refundable feature, to offset some of the impact of the social security payroll tax on their earnings. However, inflation since 1975 brought the poverty level 11.5 percent above the tax threshold in 1982, and by 1984 the gap increased to 17.2 percent, the largest gap since 1969. The expansion of the earned income tax credit in 1987 will reduce the gap to an estimated 14.2 percent in 1985. But because the earned credit is not indexed, after 1985 the gap will grow again.

TABLE 13.—RELATIONSHIP BETWEEN INCOME TAX THRESHOLD AND POVERTY LEVEL FOR A FAMILY OF FOUR, 1959–1985

Year	Income tax threshold	Poverty level	Percentage gap between tax threshold and poverty level
1959	$2,667	$2,973	−10.3
1960	2,667	3,022	−11.7
1965	3,000	3,223	−6.9
1966	3,000	3,317	−9.6
1968	3,000	3,553	−15.6
1969	3,000	3,743	−19.9
1970	3,600	3,968	−9.3
1971	3,750	4,137	−9.4
1972	4,300	4,275	+0.6
1973	4,300	4,540	−5.3
1974	4,300	5,038	−14.6
1975	6,692	5,500	+21.7
1976	6,892	5,815	+18.5
1977	7,533	6,191	+22.0
1978	7,533	6,662	+13.1
1979	8,626	7,412	+16.4
1980	8,626	8,414	+2.5
1981	8,634	9,287	−7.0
1982	8,727	9,862	−11.5
1983	8,783	10,178	−13.7
1984	8,783	10,610	−17.2
1985 [1]	9,437	11,003	−14.2

[1] Estimated.

Note.—Tax thresholds assume full use of the earned income tax credit. They are based on the schedule for a married couple filing jointly, and do not assume eligibility for elderly exemption.

Amount of tax paid at poverty level

Table 14 shows the income tax threshold and the poverty level for various family sizes for 1978 and the years 1982 through 1985. Poverty levels for 1985 are based on assumptions about the rate of inflation in that year.

In 1978, the poverty level exceeded the income tax threshold only for single persons, and the maximum income tax paid by a poor single person was only $16. For three- and four-person families at the poverty line, the earned income credit offset a substantial part of the payroll tax.

In 1983, the income tax threshold exceeds the poverty level only for three-person families. For four-person families the shortfall of the tax threshold below the poverty level is $1,383, and for six-person families it is $3,901. In 1985, even after the expansion of the earned income credit and indexation, the tax threshold is above the poverty line only for three-person families. For four-person families the tax threshold is $1,566 below the poverty line, and for six-person families, $4,310 below the poverty line. Even after indexing takes effect, the gap between the tax threshold and the poverty line will grow faster than the rate of inflation for these families. This will happen because a taxpayer at the tax threshold is still eligible for the earned income credit and will be affected by the failure to index that credit.

Table 14 also shows the amount of income tax and payroll tax that is paid by someone whose income equals the poverty line and whose income is fully subject to tax. While many poor people do receive cash transfer payments that are tax-exempt and, therefore, would not be subject to the tax burdens shown in table 14, there are many poor people who must rely on their earnings and for whom these tax burdens can result under present law. By 1985, a four-person family whose income is at the poverty line can pay as much as $375 in income tax, and a six-person family as much as $585. The table also shows the payroll taxes paid by an earner whose earnings are at the poverty line. In 1975, Congress hoped to eliminate some of this burden by the refundable earned income credit, but since then inflation has raised tax liabilities and the poverty level so that the credit, which before 1985 does not apply to families with incomes above $10,000, does not give any benefit to a significant number of poor families. For years starting in 1985 the income ceiling on eligibility for the earned income credit was raised to $11,000 and the maximum credit was raised from $500 to $550. However, in real terms the income ceiling and the value of the credit remain below their 1982 level. Because they are not indexed, their real value after 1985 will continue to decline as prices increase. The table also shows the combined income and payroll tax burden at the poverty line as a percent of income. Note that this can be as high as 11 percent of income.

TABLE 14.—TAX THRESHOLDS, POVERTY LEVELS, AND FEDERAL TAX AMOUNTS FOR DIFFERENT FAMILY SIZES WITH EARNINGS EQUAL TO THE POVERTY LEVEL, 1978–1985

	Family size					
	1	2	3	4	5	6
Income tax threshold:						
1978	$3,200	$5,200	$6,930	$7,520	$8,183	$9,167
1982	3,300	5,400	8,237	8,727	9,216	9,706
1983–84	3,300	5,400	8,315	8,783	9,251	9,719
1985	3,430	5,620	8,944	9,437	9,930	10,422
Poverty level:						
1978	3,311	4,249	5,201	6,662	7,880	8,891
1982	4,900	6,280	7,690	9,860	11,680	13,210
1983	5,061	6,483	7,938	10,178	12,049	13,630
1984 [1]	5,280	6,760	8,280	10,610	12,560	14,210
1985 [1]	5,475	7,010	8,586	11,003	13,025	14,736
Income tax at poverty level:						
1978	16	0	−280	−134	−12	0
1982	202	106	−134	285	417	491
1983	209	118	−91	319	429	508
1984	226	151	−10	366	480	571
1985	234	153	−83	375	492	585
Payroll tax at poverty level:						
1978	200	257	315	403	477	538
1982	328	421	515	661	783	885
1983	339	434	532	682	807	913
1984 [2]	354	453	555	711	842	952
1985	386	494	605	776	918	1,039
Combined income and payroll tax at poverty level:						
1978	216	257	35	269	465	538
1982	530	527	381	946	1,200	1,376
1983	548	552	441	1,001	1,236	1,421
1984	580	604	545	1,077	1,322	1,523
1985	620	647	522	1,151	1,410	1,624
Combined tax as percent of income at poverty level:						
1978	6.5	6.1	0.7	4.0	5.9	6.1
1982	10.8	8.4	5.0	9.6	10.3	10.4
1983	10.8	8.5	5.6	9.8	10.3	10.4
1984	11.0	8.9	6.6	10.2	10.5	10.7
1985	11.3	9.2	6.1	10.5	10.8	11.0

[1] Projected thresholds.

[2] Effective payroll tax calculated as 6.7 percent for 1984 because in this year employees are allowed a payroll tax credit equal to 0.3 percent of taxable wages.

Note: Income tax figures assume full use of the earned income tax credit. Income tax figures are based on schedule for married couple filing jointly, and do not assume eligibility for the elderly exemption.

COMBINED IMPACT OF AFDC, FOOD STAMPS, AND FEDERAL TAX POLICY UPON FEMALE-HEADED FAMILIES: 1960 TO 1984

This section briefly examines the combined impact of AFDC, food stamps and Federal tax policy upon female-headed families by State. The analysis calculates AFDC, food stamps, and Federal taxes (income plus payroll) for single parents with two or three children with different earnings in each State (except Alaska and Hawaii). To make comparisons across time, wages are expressed as a given percentage (0, 50, 75, 100, or 125) of the poverty thresholds. At the conclusion of this section is a complete description of the methodology.

Table 15 presents the combined AFDC and food stamp benefit level for a family of four with no income from 1960 to 1984 (in constant 1984 dollars). Over the entire 24-year period, the weighted average of total benefits (weighted across States by the 1980 State population) grew only 3.6 percent, from $6,715 in 1960 to $6,955 in 1984. While AFDC benefits declined slightly from 1960 to 1964 (a 1.6 percent decline), AFDC grew 8 percent in real terms from 1964 to 1968. Between 1968 and 1984, AFDC benefits declined by 33 percent in real terms. However, on average with the availability of food stamps, total benefits increased from 1964 to 1972, declined slightly from 1972 to 1976, dropped significantly from 1976 to 1980 (14.4 percent) and lost another 7 percent between 1980 and 1984.

Creation of the food stamp program in the late 1960's produced an increase in benefits in some States, especially in the south. The benefit level in several States (Alabama, Arkansas, Delaware, Florida, Maine, Mississippi, South Carolina) increased by over 50 percent from 1960 to 1984. In 22 States, total benefits (AFDC only in 1960 and food stamps plus AFDC in 1984) declined from 1960 to 1984. In 12 of these States (Idaho, Illinois, Massachusetts, Montana, New Jersey, New Mexico, New York, North and South Dakota, Ohio, Washington and Wyoming), the decline was over 10 percent. Since 1972, AFDC and food stamp benefit levels for a family of four with no income has declined by about 22 percent on average.

TABLE 15.—COMBINED AFDC AND FOOD STAMP BENEFIT LEVELS FOR A FAMILY OF FOUR WITH NO INCOME

	1984 constant dollars							Percent change	Percent change
	1960	1964	1968	1972	1976	1980	1984	1960 to 1984	1972 to 1984
Alabama	2,317	2,702	3,189	5,983	6,262	5,275	4,800	107.1	−19.8
Arizona	5,646	5,384	4,802	7,782	7,218	6,292	5,950	5.4	−23.5
Arkansas	2,781	2,853	3,225	6,275	6,339	5,699	5,186	86.5	−17.4
California	9,058	8,638	7,919	9,798	10,002	9,671	9,125	0.7	−6.9
Colorado	6,867	5,690	6,629	9,006	8,423	7,425	6,481	−5.6	−28.0
Connecticut	9,269	9,241	11,001	11,008	10,400	8,760	8,924	−3.7	−18.9
Delaware	4,171	5,986	6,701	7,130	8,592	7,012	6,404	53.5	−10.2
District of Columbia	6,994	6,669	6,594	8,944	9,005	7,404	6,656	−4.8	−25.6
Florida	3,286	3,134	3,046	6,963	6,798	6,144	5,875	78.8	−15.6
Georgia	4,592	4,379	4,479	7,067	6,461	5,752	6,059	31.9	−14.3
Idaho	8,805	8,080	8,529	9,840	9,465	7,595	6,471	−26.5	−34.2
Illinois	8,131	7,528	9,998	9,632	9,051	7,415	6,673	−17.9	−30.7
Indiana	4,634	4,419	5,375	8,235	8,025	7,044	6,236	34.6	−24.3
Iowa	7,289	7,645	8,744	9,027	9,649	8,145	7,101	−2.6	−21.3
Kansas	7,710	7,436	8,493	10,674	9,772	7,838	7,126	−7.6	−33.2
Kentucky	5,309	5,490	6,701	7,526	7,795	6,197	5,648	6.4	−25.0
Louisiana	4,550	4,339	4,157	6,213	6,615	5,963	5,547	21.9	−10.7
Maine	4,634	4,982	4,909	7,463	8,454	7,436	7,378	59.2	−1.1
Maryland	6,362	6,730	6,379	8,131	7,902	7,160	6,920	8.8	−14.9
Massachusetts	9,227	8,887	10,320	11,237	10,094	8,145	7,471	−19.0	−33.5

Michigan (Wayne)	5,898	6,428	8,815	11,487	10,370	9,014	7,286	23.5	−36.6
Minnesota	8,510	8,127	9,532	11,028	10,094	8,855	8,714	2.4	−21.0
Mississippi	2,107	2,009	1,971	5,123	4,948	4,978	4,476	112.5	−12.6
Missouri	4,634	4,419	4,443	6,671	6,798	6,779	6,169	33.1	−7.5
Montana	8,595	8,708	8,027	8,256	8,055	7,213	7,151	−16.8	−13.4
Nebraska	5,477	5,223	7,167	8,673	8,699	7,626	7,109	29.8	−18.0
Nevada	4,466	4,821	5,662	7,630	8,009	7,033	5,866	31.4	−23.1
New Hampshire	7,499	7,352	9,102	10,090	9,496	7,859	7,185	−4.2	−28.8
New Jersey	9,732	9,875	11,897	10,716	9,649	8,093	7,303	−25.0	−31.9
New Mexico	7,836	7,462	6,558	7,685	7,343	6,535	6,211	−20.7	−19.2
New York (NYC)	9,564	10,271	9,962	10,486	11,488	8,749	8,476	−11.4	−19.2
North Carolina	5,603	6,117	5,160	7,276	7,258	5,932	5,438	−3.0	−25.3
North Dakota	8,595	9,361	8,994	10,215	9,864	8,029	7,252	−15.6	−29.0
Ohio	7,752	5,725	6,916	8,131	8,086	7,171	6,463	−16.6	−20.5
Oklahoma	6,530	6,549	6,271	7,901	8,546	7,404	6,513	−0.3	−17.6
Oregon	8,258	7,442	8,099	9,527	10,829	8,379	7,756	−6.1	−18.6
Pennsylavnia	6,235	6,565	7,633	10,486	9,910	7,743	7,067	13.3	−32.6
Rhode Island	6,909	6,732	9,532	9,444	9,695	7,828	8,473	22.6	−10.3
South Carolina	2,654	2,893	3,333	6,129	5,986	5,381	5,312	100.1	−13.3
South Dakota	7,752	7,248	8,206	9,903	9,297	7,531	6,698	−13.6	−32.4
Tennessee	3,370	4,018	4,300	6,713	6,216	5,275	4,993	48.1	−25.6
Texas	3,708	3,937	4,085	7,047	6,339	5,190	5,077	36.9	−28.0
Utah	7,120	7,071	6,629	8,860	9,297	8,251	7,151	0.4	−19.3
Vermont	5,898	5,625	8,923	10,945	10,002	9,554	8,806	49.3	−19.5
Virginia	6,235	6,529	6,844	9,402	8,959	6,938	6,765	8.5	−28.0
Washington	10,027	8,425	9,604	10,090	10,094	9,385	8,434	−15.9	−16.4
West Virginia	4,634	4,916	5,769	7,005	8,009	6,345	5,673	22.4	−19.0

TABLE 15.—COMBINED AFDC AND FOOD STAMP BENEFIT LEVELS FOR A FAMILY OF FOUR WITH NO INCOME—Continued

	1984 constant dollars							Percent change	Percent change
	1960	1964	1968	1972	1976	1980	1984	1960 to 1984	1972 to 1984
Wisconsin	9,522	9,070	8,564	10,257	10,691	9,311	8,924	−6.3	−13.0
Wyoming	8,216	8,035	7,167	8,693	8,331	7,309	6,185	−24.7	−28.9
Average	6,428	6,350	6,946	8,649	8,544	7,307	6,754	5.1	−21.9
Weighted average	6,715	6,604	7,129	8,894	8,743	7,486	6,955	3.6	−21.8

Note: For 1960, 1964, and 1968 this is only AFDC benefits. While some families may have received food stamps, the program was only operational in one-third of the counties. Only 2.2 million individuals participated in the food stamp program during fiscal year 1968.

Table 16 shows average disposable income of a mother and three children (without day care) between 1972 and 1984 with wages equal to between 0 and 125 percent of the poverty level. It shows that families earning 50 percent of the poverty level experienced a 28.5 percent decline in disposable income between 1972 and 1984. The decline for families earning 75 percent of the poverty level was 26.4 percent. The decline in disposable income is in part due to the loss of AFDC as an income supplement to wages. In 1972, 49 States paid AFDC benefits to a family with wages equal to 50 percent of the poverty threshold; by 1984 only 20 States paid AFDC to such a family. Table 17 illustrates the composition of total income for a mother and three children for 1972, 1976, 1980, and 1984. In 1972, mothers earning poverty level wages would have their incomes increased by $2,751. In 1984, a similar family would have their incomes reduced by $238. This is because Federal taxes are larger than food stamp benefits.

Tables 18 and 19 are analogous tables for a mother with two children.

The averages in tables 15–19 are weighted across States by the 1980 State population. The maximum number of States is 49 since Alaska and Hawaii have been excluded from the analysis.

TABLE 16.—COMPARISON OF THE AVERAGE AMOUNT OF DISPOSABLE INCOME AND AS A PERCENTAGE OF THE POVERTY THRESHOLD AMONG STATES FOR A MOTHER WITH THREE CHILDREN WITHOUT DAY CARE EXPENSES WITH DIFFERENT WAGE AMOUNTS: 1972, 1976, 1980, AND 1984

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1984 dollar equivalent	0	5,305	7,958	10,610	13,263
Average disposable income:					
1972 (1984 dollar equivalent)	8,894	11,546	12,468	13,361	14,310
1976 (1984 dollar equivalent)	8,743	11,508	12,507	13,053	13,690
1980 (1984 dollar equivalent)	7,486	10,095	11,150	11,691	12,503
1984	6,955	8,250	9,179	10,372	11,484
Percentage change: 1972–1984	−21.8	−28.5	−26.4	−22.4	−19.7
Disposable income as a percentage of poverty thresholds:					
1972	83.8	109.0	117.5	126.0	135.0
1976	82.4	108.5	117.9	123.0	129.0
1980	70.6	95.1	105.1	110.9	118.0
1984	65.6	78.0	86.5	97.8	108.2
Number of States which supplement wages with AFDC:					
1972	NA	49	47	44	36
1976	NA	49	46	41	28
1980	NA	46	36	27	13
1984	NA	20	5	0	0
Number of States with disposable income above poverty:					
1972	7	30	43	49	49
1976	3	35	45	49	49
1980	0	13	31	49	49
1984	0	0	0	0	49

NA: Not applicable.

Note: Weighted average across States. Disposable income is wages plus AFDC plus food stamps less Federal taxes.

TABLE 17.—COMPARISON OF THE TOTAL INCOME FOR A MOTHER WITH THREE CHILDREN WITH DIFFERENT WAGE AMOUNTS: 1972, 1976, 1980, AND 1984

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1972 (in 1984 dollars):					
Wages	0	5,305	7,958	10,610	13,263
AFDC	7,048	5,576	4,284	2,907	1,914
Food stamps	1,846	941	641	396	181
Federal taxes	0	−276	−415	−552	−1,048
Total income	8,894	11,546	12,468	13,361	14,310
1976 (in 1984 dollars):					
Wages	0	5,305	7,958	10,610	13,263
AFDC	6,503	4,470	3,143	2,080	1,282
Food stamps	2,240	1,513	1,208	874	520
Federal taxes	0	220	198	−511	−1,375
Total income	8,743	11,508	12,507	13,053	13,690
1980 (in 1984 dollars):					
Wages	0	5,305	7,958	10,610	13,263
AFDC	5,398	3,073	1,862	1,026	487
Food stamps	2,088	1,512	1,239	829	365
Federal taxes	0	205	91	−774	−1,612
Total income	7,486	10,095	11,150	11,691	12,503
1984:					
Wages	0	5,305	7,958	10,610	13,263
AFDC	4,789	726	83	0	0
Food stamps	2,166	2,075	1,599	971	0
Federal taxes	0	144	−461	−1,209	−1,779
Total income	6,955	8,250	9,179	10,372	11,484

Note: Weighted average across States. If taxes are positive, this means the family received a refundable earned income tax credit. A minus sign coincides with the normal definition of taxes. Federal taxes includes both income and payroll taxes.

TABLE 18.—COMPARISON IN CONSTANT 1984 DOLLARS OF AFDC, FOOD STAMPS, FEDERAL TAXES AND TOTAL INCOME FOR A MOTHER WITH TWO CHILDREN WITHOUT DAY CARE EXPENSES WITH DIFFERENT WAGE AMOUNTS, 1976, 1980, AND 1984

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1976 (1984 dollars):					
Wages	0	4,144	6,215	8,287	10,359
AFDC	5,452	3,980	3,004	2,005	1,298
Food stamps	1,768	1,166	937	681	408
Federal taxes	0	172	257	146	−453
Total income	7,220	9,462	10,413	11,119	11,612
1980 (1984 dollars):					
Wages	0	4,144	6,215	8,287	10,359
AFDC	4,533	2,775	1,857	1,152	632
Food stamps	1,682	1,218	997	702	385
Federal taxes	0	160	240	−189	−886
Total income	6,215	8,297	9,309	9,952	10,490
1984:					
Wages	0	4,144	6,215	8,287	10,359
AFDC	4,022	870	135	2	0
Food stamps	1,740	1,668	1,364	894	385
Federal taxes	0	136	−44	−678	−1,297
Total income	5,762	6,818	7,670	8,505	9,447

Note: Weighted average across States. If taxes are positive, this means the family received a refundable earned income tax credit. A minus sign coincides with the normal definition of taxes. Federal taxes includes both income and payroll taxes.

TABLE 19.—COMPARISON OF THE AVERAGE AMOUNT OF DISPOSABLE INCOME AND AS A PERCENTAGE OF THE POVERTY THRESHOLD AMONG STATES FOR A MOTHER WITH TWO CHILDREN WITHOUT DAY CARE EXPENSES WITH DIFFERENT WAGE AMOUNTS, 1976, 1980, AND 1984

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1984 dollar equivalent	0	4,144	6,215	8,287	10,359
Average disposable income:					
1976 (1984 dollars)	7,220	9,462	10,413	11,119	11,612
1980 (1984 dollars)	6,215	8,297	9,309	9,952	10,490
1984	5,762	6,818	7,670	8,505	9,447
Percentage change:					
1976–80	−13.9	−12.3	−10.6	−10.5	−9.7
1980–84	−7.3	−17.8	−17.6	−14.5	−9.9
1984–76	−20.2	−27.9	−26.3	−23.5	−18.6
Disposable income as a percentage of poverty thresholds:					
1976	87.1	114.2	125.7	134.2	140.1
1980	75.0	100.1	112.3	120.1	126.6
1984	69.5	82.3	92.6	102.6	114.0
Number of States which supplement wages with AFDC:					
1976	NA	49	47	43	33
1980	NA	47	42	33	20
1984	NA	24	6	1	0
Number of States with disposable income above poverty:					
1976	11	40	49	49	49
1980	0	21	36	49	49
1984	0	2	1	49	49

NA—Not applicable.

Note: Weighted average across States. Disposable income is wages plus AFDC plus food stamps less Federal taxes. Poverty thresholds are for a nonfarm family of 3 and are indexed to CPI–U. The values for 1976, 1980, and 1984 are $4,540, $6,565, and $8,287, respectively.

STUDY METHODOLOGY

AFDC

Each State's AFDC program was modeled using the appropriate need standard, payment standard, percentage of deficit paid (usually 100 percent), and maximum benefit for July of each year from 1972 to 1984. The AFDC benefit listed in table 15 for 1960 is the January 1961 benefit amount to which was applied the State maximum AFDC payment amounts in effect for September 1960. Data for 1964 are the January 1965 benefit. All of the AFDC benefit amounts are from a series of HEW publications entitled: "State Maximums and Other Methods of Limiting Money Payments to Recipients Under the Special Types of Public Assistance," September

1960 and October 1968; or "Monthly Cost Standards Used by States for Specified Types of Old Age Assistance Cases and Families Receiving Aid to Families with Dependent Children," January 1961 and January 1965.

The benefit level for 1968 is for the month of April. Data for 1972 to 1984 were provided by the Congressional Research Service. The earlier year data (1960 to 1968) are of lower quality than from 1972 on. However, the general trends noted in table 15 for 1960 to 1968 are correct.

For 1972, 1976, and 1980, monthly work expenses of 10 percent of gross wages to a maximum of $23, $31, and $45 are assumed, respectively; in 1984, the full $75 monthly deduction is included. The earned income disregards are applied in 1980 according to the rules in effect prior to enactment of the Omnibus Budget Reconciliation Act (OBRA). In 1984, the benefit is calculated in the fifth month of eligibility, after the termination of the earned income disregards because the majority of female heads with wages are not in their first 4 months of employment. See table 1 in section 8 as to how the earnings disregards were applied.

Food stamps

Given the wages and AFDC benefits, the food stamp benefit is calculated using the July 1972, 1976, 1980, and 1984 food stamp parameters (see table 20).

Earned income tax credit

For 1980 and 1984 the EITC is calculated for AFDC families with adjusted gross income and earned income below $10,000 annually. The credit equals 10 percent of the first $5,000 in earnings; it may not exceed $500 per family. It is phased out at a 12.5 percent rate for earnings above $6,000. For 1972 the credit is not applicable, and for 1976 the credit equals 10 percent of the first $4,000 of wages. It is phased out at a 10 percent rate between earnings of $4,000 and $8,000. The EITC is counted as earnings for AFDC purposes only in 1984.

Federal income taxes

These are calculated using the head of household tax rates with a standard deduction and exemptions equal to the number of family members.

Federal payroll taxes

Only FICA is included. The tax rate is 5.20 percent, 5.85 percent, 6.13 percent, and 6.70 percent of wages for 1972, 1976, 1980, and 1984, respectively.

This methodology did not incorporate any other sources of income or expenses although it is possible that these families could have other income sources. The value of health care benefits—in the form of Medicaid or private health insurance—has not been included. A low-income energy assistance grant also was not assumed. However, several States in 1984 (Maryland, New York, Oregon, Rhode Island, and Washington) have designated a portion of their AFDC grant as energy assistance and this is disregarded in calculating the food stamp benefit. This does not affect the family's eligibility for more energy assistance and the primary effect is to increase food stamp benefits. This energy disregard was modeled when food stamp benefits were calculated.

This section examines income in the one month of July which is the month in which AFDC benefits are usually increased. These amounts are then annualized to examine Federal tax policy. To some extent, this is a simplification of the real world. In some States, AFDC benefits vary by season. Food stamp benefit calculations are different at different times of the year. However, there is no reason to believe that annualizing July data presents a misleading picture of Federal and State policy changes between 1972 and 1984.

TABLE 20.—SUMMARY OF KEY FOOD STAMP PARAMETERS

	1972	1976	1980	1984
Monthly allotment:				
Family of 3	92	130	165	199.
Family of 4	112	166	209	253.
Monthly deduction amount.	[1] 40	[1] 55	75	89.
Work expenses	Actual taxes plus 10 percent of wages up to $275 annually.	Actual taxes plus 10 percent of wages up to $375 annually.	20 percent of wages.	18 percent of wages.
Monthly shelter deduction.	None	None	45	62.50.
Monthly countable income limit:				
Family of 3	Not applicable	$433	$520	$705.
Family of 4	$390	$570	$621	$825.
Gross monthly income limit:				
Family of 3	None	None	None	$917.
Family of 4	None	None	None	$1,073.

[1] In addition, the monthly purchase requirement table had a $30 deduction amount built into the table. These amounts include the shelter deduction.

APPENDIX K. SELECTED ECONOMIC AND POPULATION DATA FOR THE UNITED STATES AND BY STATE

TABLE 1.—SELECTED ECONOMIC DATA

	1970	1975	1980	1983	1984
Poor and near-poor data:					
Poverty threshold nonfarm:					
Family of 4	$3,968	$5,500	$8,410	$10,178	$10,610
Percent poor:					
Total population	12.6	12.3	13.0	15.2	NA
Aged (65 and over)	24.5	15.3	15.7	14.1	NA
Related children under 18	14.9	16.8	17.9	21.7	NA
Female headed households	38.2	34.6	33.8	35.7	NA
Wages:					
Average manufacturing wage [2]	$3.35	$4.83	$7.27	$8.83	$9.17
Federal minimum wage	$1.60	$2.30	$3.10	$3.35	$3.35
Average annual wages and salaries [3]	$6,231	$8,504	$12,225	$14,596	$15,291
Unemployment rate (percent):					
Total [4]	4.8	8.3	7.0	9.5	7.4
Insured unemployment	3.4	6.0	3.9	3.9	2.8
Income:					
Median family income (constant 1983 dollars)	$25,317	$25,396	$25,418	$24,580	....
GNP (billions):					
Current dollars	$993	$1,549	$2,632	$3,305	[p] $3,661
Constant 1972 dollars	$1,086	$1,234	$1,475	$1,535	[p] $1,639
Wages and salaries as a percent of GNP	55	52	51	50	[p] 49
Population: [5]					
Total residents (millions)	203.2	215.5	227.2	234.0	236.1
Under 18 years	69.7	67.2	63.7	62.6	NA
18 through 64 years	113.6	125.6	137.8	144.0	NA
65 and over	20.0	22.7	25.7	27.4	NA

[1] Estimate.

[2] Includes overtime.

[3] Full-year equivalent for total private nonagricultural workers.

[4] Percent of total labor force, including Armed Forces residing in the United States.

[5] July data except for 1970 and 1980 (April).

[p] Preliminary.

TABLE 2.—MONTHLY DATA FOR CPI–U SINCE 1970

CPI–U: All Items (1967=100)

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
1970.....	113.3	113.9	114.5	115.2	115.7	116.3	116.7	116.9	117.5	118.1	118.5	119.1	116.3
1971.....	119.2	119.4	119.8	120.2	120.8	121.5	121.8	122.1	122.2	122.4	122.6	123.1	121.3
1972.....	123.2	123.8	124.0	124.3	124.7	125.0	125.5	125.7	126.2	126.6	126.9	127.3	125.3
1973.....	127.7	128.6	129.8	130.7	131.5	132.4	132.7	135.1	135.5	136.6	137.6	138.5	133.1
1974.....	139.7	141.5	143.1	143.9	145.5	146.9	148.0	149.9	151.7	153.0	154.3	155.4	147.7
1975.....	156.1	157.2	157.8	158.6	159.3	160.6	162.3	162.8	163.6	164.6	165.6	166.3	161.2
1976.....	166.7	167.1	167.5	168.2	169.2	170.1	171.1	171.9	172.6	173.3	173.8	174.3	170.5
1977.....	175.3	177.1	178.2	179.6	180.6	181.8	182.6	183.3	184.0	184.5	185.4	186.1	181.5
1978.....	187.2	188.4	189.8	191.5	193.3	195.3	196.7	197.8	199.3	200.9	202.0	202.9	195.4
1979.....	204.7	207.1	209.1	211.5	214.1	216.6	218.9	221.1	223.4	225.4	227.5	229.9	217.4
1980.....	233.2	236.4	239.8	242.5	244.9	247.6	247.8	249.4	251.7	253.9	256.2	258.4	246.8
1981.....	260.5	263.2	265.1	266.8	269.0	271.3	274.4	276.5	279.3	279.9	280.7	281.5	272.4
1982.....	282.5	283.4	283.1	284.3	287.1	290.6	292.2	292.8	293.3	294.1	293.6	292.4	289.1
1983.....	293.1	293.2	293.4	295.5	297.1	298.1	299.3	303.3	301.8	302.6	303.1	303.5	298.4
1984.....	305.2	306.6	307.3	308.8	309.7	310.7	311.7	313.0	314.5	315.3	315.3	315.5	311.1

TABLE 3.—POPULATION STATISTICS BY STATE

State	Resident population July 1, 1984 (thousands)	Population 65 years and over (thousands)	Percentage of population over age 65	Percentage change 1980–84	Percentage change 1970–80
Total	236,158	28,040	11.9	4.2	11.4
Connecticut	3,154	407	12.9	1.5	2.5
Maine	1,156	152	13.1	2.8	13.2
Massachusetts	5,798	777	13.4	1.1	0.8
New Hampshire	977	114	11.7	6.1	24.8
Rhode Island	962	138	14.3	1.6	−0.3
Vermont	530	63	11.8	3.6	15.0
Delaware	613	67	11.0	3.1	8.4
District of Columbia	623	75	12.1	−2.4	−15.6
Maryland	4,349	447	10.3	3.1	7.5
New Jersey	7,515	942	12.5	2.0	2.7
New York	17,735	2,247	12.7	1.0	−3.7
Pennsylvania	11,901	1,676	14.1	0.3	0.5
Illinois	11,511	1,356	11.8	0.7	2.8
Indiana	5,498	638	11.6	0.1	5.7
Michigan	9,075	1,007	11.1	−2.0	4.3
Ohio	10,752	1,280	11.9	−0.4	1.3
Wisconsin	4,766	611	12.8	1.3	6.5
Iowa	2,910	410	14.1	−0.1	3.1
Kansas	2,438	323	13.3	3.1	5.1
Minnesota	4,162	517	12.4	2.1	7.1
Missouri	5,008	682	13.6	1.9	5.1
Nebraska	1,606	216	13.4	2.3	5.7
North Dakota	686	87	12.6	5.2	5.7
South Dakota	706	96	13.6	2.2	3.7
Alabama	3,990	476	11.9	2.5	13.1
Arkansas	2,349	336	14.3	2.7	18.9
Florida	10,976	1,931	17.6	12.6	43.5
Georgia	5,837	577	9.9	6.8	19.1
Kentucky	3,723	438	11.8	1.7	13.7
Louisiana	4,462	435	9.7	6.1	15.4
Mississippi	2,598	306	11.8	3.1	13.7
North Carolina	6,165	688	11.2	4.8	15.7
South Carolina	3,300	331	10.0	5.7	20.5
Tennessee	4,717	566	12.0	2.7	16.9
Virginia	5,636	572	10.2	5.4	14.9
West Virginia	1,952	255	13.0	0.1	11.8
Arizona	3,053	375	12.3	12.3	53.1
New Mexico	1,424	135	9.5	9.3	28.1
Oklahoma	3,298	401	12.1	9.0	18.2

TABLE 3.—POPULATION STATISTICS BY STATE—Continued

State	Resident population July 1, 1984 (thousands)	Population 65 years and over (thousands)	Percentage of population over age 65	Percentage change 1980–84	Percentage change 1970–80
Texas	15,989	1,514	9.5	12.4	27.1
Colorado	3,178	280	8.8	10.0	30.8
Idaho	1,001	108	10.8	6.0	32.4
Montana	824	96	11.6	4.7	13.3
Utah	1,652	128	7.7	13.0	37.9
Wyoming	511	42	8.2	8.9	41.3
California	25,622	2,693	10.5	8.3	18.5
Nevada	911	87	9.5	13.8	63.8
Oregon	2,674	344	12.9	1.6	25.9
Washington	4,349	492	11.3	5.2	21.1
Alaska	500	15	3.1	24.4	32.8
Hawaii	1,039	94	9.0	7.7	25.3

Source: U.S. Department of Commerce, Bureau of the Census, Population Estimates and Projections, Series P–25, No. 957, Press Release CB84–233, and unpublished records.

TABLE 4.—INCOME, POVERTY AND UNEMPLOYMENT STATISTICS BY STATE

State	1983 per capita personal income [1]	Rank 1983 [1]	1983 unemployment rate [2] (percent)	Poverty rate		
				1969 [3]	1975 [4]	1979 [5]
Total	$11,658	....	9.6	13.7	11.4	12.4
Connecticut	14,895	2	6.0	7.2	6.7	8.0
Maine	9,847	39	9.0	13.6	12.0	13.0
Massachusetts	13,264	4	6.9	8.6	7.1	9.6
New Hampshire	12,021	16	5.4	9.1	7.9	8.5
Rhode Island	11,670	20	8.3	11.0	8.7	10.3
Vermont	9,979	36	6.9	12.1	13.5	12.0
Delaware	12,665	9	8.5	10.9	8.2	11.8
District of Columbia	15,744	....	10.6	17.0	12.5	18.6
Maryland	12,994	6	8.4	10.1	7.7	9.8
New Jersey	14,122	3	7.8	8.1	8.1	9.5
New York	12,990	7	8.6	11.1	9.4	13.4
Pennsylvania	11,448	24	11.8	10.6	9.7	10.5
Illinois	12,405	11	11.4	10.2	10.5	11.0
Indiana	10,476	33	11.1	9.7	8.1	9.7
Michigan	11,466	23	14.2	9.4	9.1	10.4
Ohio	11,216	26	12.2	10.0	9.4	10.3
Wisconsin	11,352	25	10.4	9.8	7.7	8.7
Iowa	10,703	31	8.1	11.6	7.9	10.1

TABLE 4.—INCOME, POVERTY AND UNEMPLOYMENT STATISTICS BY STATE—Continued

State	1983 per capita personal income [1]	Rank 1983 [1]	1983 unemployment rate [2] (percent)	Poverty rate		
				1969 [3]	1975 [4]	1979 [5]
Kansas	12,247	12	6.1	12.7	8.0	10.1
Minnesota	11,913	17	8.2	10.7	8.3	9.5
Missouri	10,969	28	9.9	14.7	12.0	12.2
Nebraska	11,212	27	5.7	13.1	9.6	10.7
North Dakota	11,666	21	5.6	15.7	10.6	12.6
South Dakota	9,847	38	5.4	18.7	13.1	16.9
Alabama	9,242	45	13.7	25.4	16.4	18.9
Arkansas	8,967	49	10.3	27.8	18.5	19.0
Florida	11,593	22	8.6	16.4	14.4	13.4
Georgia	10,379	34	7.5	20.7	18.0	16.6
Kentucky	9,397	44	11.7	22.9	17.7	17.6
Louisiana	10,270	35	11.8	26.3	19.3	18.6
Mississippi	8,098	50	12.6	35.4	26.1	23.9
North Carolina	9,787	40	8.9	20.3	14.7	14.8
South Carolina	9,187	46	10.0	23.9	17.2	16.6
Tennessee	9,549	43	11.5	21.8	15.8	16.4
Virginia	12,116	14	6.1	15.5	10.5	11.8
West Virginia	9,159	47	18.0	22.2	15.1	15.0
Arizona	10,656	32	9.1	15.3	13.8	13.2
New Mexico	9,640	41	10.1	22.8	19.3	17.6
Oklahoma	10,963	29	9.0	18.8	13.8	13.4
Texas	11,685	19	8.0	18.8	15.2	14.7
Colorado	12,770	8	6.6	12.3	9.1	10.1
Idaho	9,555	42	9.8	13.2	10.3	12.6
Montana	9,949	37	8.8	13.6	11.5	12.3
Utah	8,993	48	9.2	11.4	8.5	10.3
Wyoming	11,911	18	8.4	11.7	8.7	7.9
California	13,257	5	9.7	11.1	10.4	11.4
Nevada	12,451	10	9.8	9.1	8.8	8.7
Oregon	10,740	39	10.8	11.5	8.9	10.7
Washington	12,177	13	11.2	10.2	8.5	9.8
Alaska	17,194	1	10.3	12.6	6.7	10.7
Hawaii	12,114	15	6.5	9.3	7.9	9.9

---

[1] U.S. Department of Commerce, Bureau of the Census.

[2] U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.

[3] U.S. Bureau of the Census, Statistical Abstract of the United States: 1979, table 764. pp. 465 (100th edition), Washington, D.C. 1979. 1969 estimates are from the 1970 census.

[4] Data are also from the 1979 Statistical Abstract of the United States, but estimates are from the Survey of Income and Education.

[5] U.S. Bureau of the Census, Statistical Abstract of the United States: 1982–83, table 732, p. 443. (103d edition.) Washington, D.C. 1982. 1979 estimates are from the 1980 census.

TABLE 5.—POPULATION BY AGE GROUPS, 1940–83, SELECTED YEARS

[Thousands of persons]

July 1	Total	Age (years)				
		16–19	20–24	25–44	45–64	65 and over
1940	132,122	9,895	11,690	39,868	26,249	9,031
1945	139,928	9,361	12,036	42,521	28,630	10,494
1950	152,271	8,542	11,680	45,672	30,849	12,397
1955	165,931	8,744	10,714	47,194	33,506	14,525
1960	180,671	10,683	11,134	47,140	36,203	16,675
1965	194,303	13,516	13,746	46,912	38,916	18,451
1970	205,052	15,289	17,202	48,473	41,999	20,107
1971	207,661	15,688	18,159	48,936	42,482	20,561
1972	209,896	16,039	18,153	50,482	42,898	21,020
1973	211,909	16,446	18,521	51,749	43,235	21,525
1974	213,854	16,769	18,975	53,051	43,522	22,061
1975	215,973	17,017	19,527	54,302	43,801	22,696
1976	218,035	17,194	19,986	55,852	44,008	23,278
1977	220,239	17,276	20,499	57,561	44,150	23,892
1978	222,585	17,288	20,946	59,400	44,286	24,502
1979	225,055	17,242	21,297	61,379	44,390	25,134
1980	227,738	17,138	21,620	63,487	44,498	25,713
1981	230,019	16,696	21,977	65,569	44,499	26,256
1982	232,309	16,223	21,980	67,738	44,511	26,826
1983	234,496	15,649	21,925	67,827	44,562	27,384

Note.—Includes Armed Forces overseas. Alaska and Hawaii beginning 1950.

Source: Department of Commerce, Bureau of the Census.

TABLE 6.—PROJECTIONS OF THE RESIDENT POPULATION OF THE UNITED STATES, BY AGE AND SEX: 1980 TO 2000

[In thousands as of July 1, except as noted]

Age (years)	Both sexes			Female		
	Census, (April 1, 1980)	Projections		Census (April 1, 1980)	Projections	
		1990	2000		1990	2000
Total, all ages	226,546	249,134	267,432	116,493	128,089	137,414
15 to 19	21,168	16,916	18,891	10,413	8,294	9,257
20 to 24	21,319	18,360	16,925	10,655	9,111	8,396
25 to 29	19,521	21,410	17,284	9,816	10,632	8,579
30 to 34	17,561	21,939	18,951	8,884	10,991	9,430
35 to 39	13,965	19,955	21,707	7,104	10,067	10,827
40 to 44	11,669	17,827	21,971	5,961	9,048	11,049
45 to 49	11,090	13,975	19,758	5,702	7,148	10,024
50 to 54	11,710	11,421	17,355	6,089	5,903	8,899
55 to 59	11,615	10,433	13,280	6,133	5,479	6,917
60 to 64	10,088	10,618	10,487	5,418	5,701	5,578
65 to 69	8,782	9,996	9,096	4,880	5,538	4,989
70 to 74	6,798	8,039	8,581	3,945	4,634	4,916
75 to 79	4,794	6,260	7,295	2,946	3,825	4,426
80 to 84	2,935	4,089	5,023	1,916	2,669	3,252
85 and over	2,240	3,313	4,926	1,559	2,393	3,576

Source: Bureau of the Census, Population Estimates and Projections, Series P-25, No. 952.

APPENDIX L. QUALITY CONTROL SYSTEMS

In the four major welfare programs, AFDC, SSI, medicaid, and the food stamp program, the Federal Government and the States have established on-going "quality control" systems. These systems have two goals: correcting faults in program administration that contribute to erroneous payments and reducing the extent of misspent benefit dollars. To these ends, they attempt to: (1) measure the extent and dollar value of "errors" in administration; (2) identify the types and causes of error; and (3) specify and monitor corrective actions taken to eliminate or reduce errors.

Fiscal incentives and sanctions have also been made a part of these systems. Under these sanctions States can be held liable for the cost of benefit payments made in excess of federally established error tolerance levels, often referred to as target error rates, or (in the food stamp program) they may be sanctioned by the loss of a portion or all of the Federal share of their food stamp administrative expenses. The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97–248) included new target error rates for AFDC and medicaid; the 1982 Omnibus Budget Reconciliation Act (P.L. 97–253) also established target error rates for the food stamp program. The AFDC target error rate for fiscal year 1983 was 4 percent, and was reduced to 3 percent for fiscal year 1984 and thereafter. For medicaid, a 3-percent target error rate was established for quarters beginning after March 30, 1983. Under medicaid, prospective fiscal sanctions were authorized to be applied beginning in the second half of fiscal year 1983 for States with error rates exceeding 3 percent. However, errors, which, if corrected, would not have made a difference in the amount of medical assistance paid, are excluded from the calculation. Prospective sanctions are currently being challenged in court by several States.

Under the food stamp law which became effective at the start of fiscal year 1983, States were required to reduce their error rates by one-third each year, but they also must reach 5 percent by fiscal year 1985.

For AFDC and medicaid there are no longer any fiscal incentive provisions except in Guam, Puerto Rico, and the Virgin Islands. For food stamps, the incentive provision is an increase from 50 percent to 60 percent in the Federal share of administrative costs for States with error rates of 5 percent or less.

MEASUREMENT OF ERROR

The core of the four existing quality control systems is the quality control case survey. Each system compiles the results of a randomly selected, statistically valid, sample of cases ranging from 40,000 to 80,000 nationwide. For AFDC and food stamps, the cases are now selected, and error data compiled, on an annual basis rather than every 6 months as is the case in Medicaid and SSI. In the past, AFDC and food stamps also collected QC data every 6 months. Each selected case is subjected to a thorough review by quality control personnel, including a full field investigation. This review identifies payments to ineligibles, overpayments, underpayments, the type of error made, the responsibility (recipient versus administering agency) for the error, and, in some cases, incorrect denials of aid. Error "rates" are then established for that review period for each State: "caseload" error rates indicate the proportion of ineligible cases, overpaid cases, underpaid cases, and, in some cases, improperly denied cases in the sample caseload; "payment" error rates indicate the extent of erroneous payments in each category of error as a proportion of total dollars paid out to the sampled caseload. Moreover, information on the sources and types of errors identified in each quality control review is compiled for use in implementing administrative "corrective actions" intended to reduce or eliminate similar errors in the future.

In the AFDC and food stamp systems, quality control error rates quantify the extent to which eligibility and payment errors exist in the State-administered caseloads of these two programs. In the medicaid system, quality control error rates indicate the extent to which errors as to eligibility, overpayment, claims processing (payment of improper claims), and identification of third-party liability exist in the medicaid population. And, in the SSI system, quality control error rates illustrate the extent and cost of errors in the federally administered caseload.

The "errors" identified and measured in all four quality control systems range from simple procedural or arithmetical mistakes, to lack of verification or nonreporting of income, to outright recipient fraud. As a result, although quality control error rates and the information behind them do give a picture of the extent to which improper decisions are being made and help administering agencies pinpoint areas where improvement is needed, they do not represent a statistically accurate measure of intentional actions such as fraud. In fact, "agency-caused" procedural errors make up nearly half the errors typically identified in quality control surveys, and "recipient-caused" errors are often simple mistakes in understanding what is required or failure to provide information on a timely basis.

ADMINISTRATION

In the AFDC, medicaid, and food stamp programs, the quality control systems are operated by State quality control staff under Federal instructions and guidelines. A State's error rate is determined by using findings from both the State's full sample and a Federal subsample. In the SSI program, the entire quality control system is Federally operated since it measures the performance of Federal administration. When identifying errors in food stamp and SSI administration, agency and recipient actions are compared to Federal rules; in the AFDC and medicaid systems, errors are identified through comparison with State operating policies, the State plan and Federal regulations.

The cost of operating quality control systems is carried as a regular administrative cost and is shared by the States and Federal Government, just as any other administrative expense.

CORRECTIVE ACTION

The basic goal of quality control systems is to reduce, over time, the extent and cost of errors in program administration. As part of each system, "corrective action plans" for error reduction are regularly formulated based on the findings of the quality control sample surveys. Corrective actions can range from personnel policy changes or new computer systems, to substantive changes in eligibility rules or procedures for verifying information provided by recipients. Very often, "error-prone" profiles are drawn up from the results of quality control surveys to assist administrators in identifying cases to which particular attention should be paid.

SANCTIONS AND INCENTIVES

Another use of the results of a quality control sample is to determine the degree to which States (or the Federal Government in the case of SSI) will be held financially liable for erroneous payments. In the AFDC and medicaid systems, States may be "sanctioned" by being required to pay the Federal Government the Federal cost of improperly issued benefits, as shown by quality control surveys, if they do not keep their error rates below the target rates established by the Tax Equity and Fiscal Responsibility Act for AFDC and medicaid. The fiscal sanction that may be imposed is the amount of Federal funds misspent above the target error rate. In food stamps, States may be sanctioned through loss of a portion or all of the Federal share of their administrative expenses. However, while fiscal sanctions have been included in legislation prior to the 1982 laws, they have been waived when States demonstrate that they are making a good faith effort to reduce errors. When waivers are not granted, States have begun to appeal the decision to impose sanctions through administrative channels and the courts. Table 1 depicts the estimated AFDC sanction amounts and collection schedule according to the Department of Health and Human Services and the Congressional Budget Office. HHS assumes that the entire estimated sanction will be collected beginning in fiscal year 1985. CBO delays collection and assumes that waivers will be granted for two-thirds of the estimated sanction amount.

Food stamp program incentive payments are made as increases in the Federal share of State administrative expenses—from the normal 50 percent to 60 percent where the cumulative error rate is less than 5 percent. The food stamp incentive payment requirements also stipulate that the rate of improper denials must fall below a Federal tolerance level in order for an incentive payment to be made on the basis of low or rapidly reducing rates of erroneous payment.

Table 2 summarizes national payment error rates for the four major welfare programs over recent quality control review periods. Table 3 shows the historical trend in the AFDC error rate beginning in 1973.

For AFDC, the national average payment error rate has remained well above the target rate of 4.0 percent. Food stamp program quality control data also show error rates well above the legislated target levels. However, the medicaid program has shown declining error rates.

TABLE 1.—SANCTION AMOUNTS AND ESTIMATED COLLECTION SCHEDULE

Year errors were made	Estimated [1] sanction amount (in millions)	HHS and CBO projected schedules for collecting sanctions	
		HHS estimate	CBO estimate
Fiscal year:			
1981	$74		
1982	99		
1983	180		
1984	234		
1985	220	$173	0
1986	198	414	0
1987	175	220	0
1988	159	198	$57
1989	141	175	137
1990	NA	159	138
1991	NA	141	110
Total	1,480	1,480	442

[1] Prewaiver.

Source: Department of Health and Human Services and Congressional Budget Office. Compiled by committee staff.

TABLE 2.—SUMMARY OF NATIONAL OVERPAYMENT ERROR RATES BY PROGRAM

	AFDC	Medicaid [1]	Food stamps [2]	SSI
October 1979–March 1980	8.3	5.2	10.2	5.0
April 1980–September 1980	7.3	5.0	8.9	4.9
October 1980–March 1981	8.3	4.0	10.4	5.3
April 1981–September 1981	7.0	3.0	9.5	4.9
October 1981–March 1982	7.3	2.7	9.8	4.8
April 1982–September 1982	[3] 6.6	2.9	9.2	4.1
October 1982–March 1983	NA	2.6	8.2	4.1
April 1983–September 1983	NA	2.9	NA	3.6

[1] The error rates for the periods between October 1979 and March 1981 have been adjusted to reflect the new payment error rate definition implemented in April 1981.

[2] Overpayment dollar error rate only. Source: Fiscal year 1985 Agriculture Department appropriations hearings.

[3] Estimated.

Note: Overpayment errors include payments made to ineligible families but does not include underpayments.

Source: Department of Health and Human Services and U.S. Department of Agriculture. Compiled by committee staff.

TABLE 3.—HISTORICAL TRENDS IN THE AFDC ERROR RATE, 1973–82

Period	Percent	Period	Percent
April–September 1973	16.5	April–September 1978	9.4
January–June 1974	14.8	October–March 1979	10.4
July–December 1974	13.6	April–September 1979	9.5
January–June 1975	12.0	October–March 1980	8.3
July–December 1975	10.2	April–September 1980	7.3
January–June 1976	9.6	October–March 1981	8.3
July–December 1976	8.5	April–September 1981	7.0
January–June 1977	8.6	October–March 1982	7.3
July–December 1977	8.7	April–September 1982	6.6
January–June 1978	10.5		

Source: Office of Family Assistance; compiled by committee staff.

Historical Perspective of Quality Control in the AFDC Program

In the early 1960's, as AFDC costs and caseloads began to grow, Congress requested that the Department of Health, Education, and Welfare verify AFDC expenditures. In response to this request, the Department developed an on-going system to validate eligibility and benefits and to serve as a management tool to improve the accuracy of the eligibility and benefit determination process. This evolved into the current quality control system. Table 4 shows State payment errors over time.

In 1973 regulations were issued establishing error tolerance levels of 3 percent on errors resulting from ineligibility and 5 percent on under and overpayments. Any erroneous payments made by the State above these amounts would be disallowed. These tolerances, which were not established by statute, were challenged in court as being arbitrary and capricious by the State of Maryland (*Mathews* v. *Maryland*). The court ruled in Maryland's favor (1978).

On March 7, 1979, the Department issued new regulations establishing error rate limits based on the national average of error rates. The March 7 regulations also included a "good cause" provision enabling the Secretary to waive disallowances based on the State's failure to meet the limit. The March 7 regulation and the threat of disallowances were effective in getting States to implement corrective action. Disallowances were temporarily suspended if States submitted negotiated corrective action plans. No disallowances were taken.

In 1979 the Michel amendment was attached to the Labor, HHS and Education fiscal year 1980 appropriation bill. This amendment requires each State to reach a payment error rate of 4 percent by September 30, 1983. In January 1980 the Department issued the following rules implementing the Michel requirements: States were required to make one-third progress toward the 4 percent goal in fiscal year 1981; two-thirds progress toward the goal in fiscal year 1982; and to attain 4 percent in fiscal year 1983.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) included further AFDC error rate reduction requirements. TEFRA requires States to move from the 4 percent standard established by the Michel amendment to a 3 percent standard in fiscal year 1984.

Columns 1 and 2 of table 5 show State payment error rates and target error rates for fiscal year 1981, the first year the Michel requirements were in effect. Based on these data, 28 States are subject to disallowance for failure to meet their error rate targets for that fiscal year.[1] These are shown in column 3. In March 1983, States were informed of their failure to meet their targets, of the amount of the disallowances, and of the States' right to request a waiver of the disallowance. All 28 States subject to disallowance for failure to meet their fiscal year 1981 targets requested good faith waivers. At the current time, no disallowances have been levied against any State. HHS is still in the process of reviewing the State requests for waivers of the 1981 error rate sanctions.

Column 4 of table 5 shows State payment error rates for the first half of fiscal year 1982, the most recent period for which QC data are available. State target error rates for all of fiscal year 1982 are shown in the last column. As of the first half of fiscal year 1982, 20 States had met their target error rate for that year. However, disallowances will not be determined until data are available for the full fiscal year.

TABLE 4.—AFDC PAYMENT ERROR RATES BY STATE,[1] OCTOBER 1979–MARCH 1982

State	Oct. 1979–Mar. 1980	Apr. 1980–Sept. 1980	Oct. 1980–Mar. 1981	Apr. 1981–Sept. 1981	Oct. 1981–Mar. 1982
National average	8.3	7.3	8.3	7.0	7.3
Alabama	6.6	7.6	8.3	7.1	5.5
Alaska	13.4	14.4	13.8	22.1	12.9
Arizona	7.7	9.5	8.7	7.8	11.6
Arkansas	9.3	6.1	6.6	7.0	8.8
California	6.3	5.1	8.6	5.0	7.4
Colorado	9.8	13.3	10.1	[2] 6.5	5.2
Connecticut	6.3	6.2	8.0	7.1	5.3
Delaware	8.1	7.9	12.8	10.3	10.6
District of Columbia	14.3	10.5	15.1	12.0	17.6
Florida	6.5	5.8	7.5	8.4	6.3
Georgia	8.3	7.8	7.3	5.8	4.8
Hawaii	8.9	9.2	10.1	10.1	8.7
Idaho	6.0	11.8	12.7	5.1	4.7
Illinois	9.4	6.9	8.6	7.9	7.7
Indiana	4.5	4.6	5.2	3.2	3.5
Iowa	4.5	3.8	4.4	4.1	4.1
Kansas	4.0	7.4	7.5	8.7	5.6
Kentucky	6.1	4.7	5.5	4.4	3.4

---

[1] The fiscal year 1984 appropriation legislation suggested that no sanctions be taken until a major review of the quality control program is carried out; the Department, as of January 10, 1984, was proceeding with the sanctioning process.

TABLE 4.—AFDC PAYMENT ERROR RATES BY STATE,[1] OCTOBER 1979–MARCH 1982—Continued

State	Oct. 1979–Mar. 1980	Apr. 1980–Sept. 1980	Oct. 1980–Mar. 1981	Apr. 1981–Sept. 1981	Oct. 1981–Mar. 1982
Louisiana	6.5	7.2	5.8	7.6	6.4
Maine	5.9	7.3	8.6	7.2	5.3
Maryland	12.7	12.7	11.8	11.3	9.1
Massachusetts	16.7	8.2	11.1	7.4	5.5
Michigan	8.2	7.3	6.9	7.7	9.0
Minnesota	4.5	2.3	3.8	5.1	3.1
Mississippi	7.9	6.9	7.3	6.5	5.0
Missouri	8.7	5.9	6.5	7.7	6.1
Montana	9.0	11.2	6.9	3.1	1.1
Nebraska	5.6	4.3	4.1	6.8	5.9
Nevada	6.0	2.3	2.5	2.0	1.5
New Hampshire	11.0	11.1	5.5	7.7	5.8
New Jersey	11.6	9.3	8.4	7.7	9.4
New Mexico	6.3	8.2	12.4	12.4	11.9
New York	7.0	9.7	9.1	6.9	6.8
North Carolina	6.5	4.8	6.2	4.7	3.7
North Dakota	7.3	4.7	3.3	2.9	1.3
Ohio	8.7	8.7	8.4	9.3	7.9
Oklahoma	4.0	4.8	4.9	8.3	4.7
Oregon	5.0	4.0	6.7	6.8	7.3
Pennsylvania	11.6	8.0	9.8	8.3	9.4
Rhode Island	8.1	9.7	6.8	5.7	6.2
South Carolina	7.7	6.9	7.4	8.3	9.4
South Dakota	3.6	6.8	7.2	2.1	3.8
Tennessee	7.0	7.0	10.2	7.7	5.6
Texas	7.4	7.8	7.1	7.9	8.8
Utah	9.1	5.5	6.0	[2] 3.7	5.4
Vermont	11.3	11.4	3.8	6.5	5.7
Virginia	5.4	4.7	3.7	3.5	3.3
Washington	8.8	9.1	9.8	8.7	7.4
West Virginia	5.3	6.9	7.1	7.6	8.1
Wisconsin	8.4	7.6	9.4	7.1	8.0
Wyoming	11.1	16.4	18.9	8.4	3.8
Guam	NA	NA	NA	NA	NA
Puerto Rico	6.8	10.3	10.0	NA	NA
Virgin Islands	10.5	5.4	NA	NA	NA

---

[1] Weighted; each 6-month error rate is weighted by the percentage of total annual payments that was expanded in the period.

[2] Revised.

NA: Not available.

Source: Department of HHS, Office of Family Assistance.

TABLE 5.—AFDC ERROR AND TARGET RATES FOR FISCAL YEAR 1981 AND FISCAL YEAR 1982 AND POTENTIAL DISALLOWANCES FOR FISCAL YEAR 1981

	Fiscal year 1981 [1]	Target rate	Potential disallowance amount (thousands)	Oct. 1981–Mar. 1982 [3]	Target rate [3]
U.S. average	7.7		[2] $73,626	7.3	
Alabama	7.7	7.6	47	5.5	5.8
Alaska	18.1	22.1		12.9	13.1
Arizona	8.3	6.7	[2] 202	11.6	5.3
Arkansas	6.8	7.4		8.8	5.7
California	6.8	4.0	35,067	7.4	4.0
Colorado	[2] 8.2	4.2	[2] 1,898	5.2	4.1
Connecticut	7.5	7.1	424	5.3	5.5
Delaware	11.6	12.0		10.6	8.0
District of Columbia	13.6	16.3		17.6	10.1
Florida	7.9	5.1	3,467	6.3	4.5
Georgia	6.5	6.5		4.8	5.3
Hawaii	10.1	7.5	1,212	8.7	5.7
Idaho	9.1	4.3	691	4.7	4.1
Illinois	8.3	12.7		7.7	8.4
Indiana	4.1	4.0	113	3.5	4.0
Iowa	4.3	6.5		4.1	5.3
Kansas	8.1	4.1	1,903	5.6	4.0
Kentucky	5.0	8.1		3.4	6.1
Louisiana	6.7	8.7		6.4	6.4
Maine	7.9	7.5	168	5.3	5.7
Maryland	11.6	10.4	1,325	9.1	7.2
Massachusetts	9.3	11.9		5.5	8.0
Michigan	7.3	7.5		9.0	5.7
Minnesota	4.5	4.0	651	3.1	4.0
Mississippi	6.9	9.0		5.0	6.5
Missouri	7.1	8.1		6.1	6.0
Montana	4.9	7.8		1.1	5.9
Nebraska	5.5	4.4	280	5.9	4.2
Nevada	2.3	4.0		1.5	4.0
New Hampshire	6.6	8.7		5.8	6.3
New Jersey	8.0	7.5	1,280	9.4	5.8
New Mexico	12.4	4.5	2,493	11.9	4.3
New York	8.0	7.2	6,270	6.8	5.6
North Carolina	5.4	6.6		3.7	5.3
North Dakota	3.1	4.0		1.3	4.0

TABLE 5.—AFDC ERROR AND TARGET RATES FOR FISCAL YEAR 1981 AND FISCAL YEAR 1982 AND POTENTIAL DISALLOWANCES FOR FISCAL YEAR 1981—Continued

	Fiscal year 1981 [1]	Target rate	Potential disallowance amount (thousands)	Oct. 1981–Mar. 1982 [3]	Target rate [3]
Ohio	8.9	7.7	3,930	7.9	5.8
Oklahoma	6.6	4.0	1,508	4.7	4.0
Oregon	6.8	9.8		7.3	6.9
Pennsylvania	9.0	12.2		9.4	8.1
Puerto Rico	8.9	6.6	1,714	9.7	5.3
Rhode Island	6.3	9.8		6.2	6.9
South Carolina	7.8	6.1	1,004	9.4	5.0
South Dakota	4.7	4.5	17	3.8	4.3
Tennessee	8.9	6.0	1,754	5.6	5.0
Texas	7.5	5.9	[2] 1,112	8.8	5.0
Utah	[2] 4.9	4.0	[2] 297	5.4	4.0
Vermont	5.2	4.3	225	5.7	4.2
Virginia	3.6	9.1		3.3	6.6
Washington	9.3	5.8	4,162	7.4	4.9
West Virginia	7.4	8.9		8.1	6.4
Wisconsin	8.2	8.7		8.0	6.4
Wyoming	13.7	4.0	413	3.8	4.0

---

[1] Weighted; each 6-month error rate is weighted by the percentage of total annual payments that was expended in that period.

[2] Revised.

[3] Data for the second half of fiscal year 1982 are not yet available. As can be seen in table 4, the percentages can vary substantially from the previous 6 months. Therefore, caution should be exercised in comparing these 2 columns.

Source: Department of Health and Human Services, Office of Family Assistance, June 24, 1983 and January 9, 1984.

TYPES OF AFDC ERROR

Tables 6–8 provide detailed information about the kinds of errors States make in administering the AFDC program. Table 6 shows the major types of error by State. Errors most commonly occur: (1) when determining the countable income of the family and applying the earned income disregards and other requirements related to establishing need and income levels; or (2) when applying basic program requirements—such as verifying age, school attendance, and deprivation—or assuring that procedural requirements are met.

These procedural requirements include noting all social security numbers of family members and filing the paperwork associated with assigning child support rights or registering for WIN. Such paperwork mistakes are known as "technical errors" and are included in the error rate on which fiscal sanctions are based. However, the payment amount does not always change after the technical error is corrected. For example, if a family of three is receiving an AFDC benefit of $325 but is missing one social security number in the file, an error has occurred and the family is ineligible for aid because a basic program requirement has not been met. Once the correct social security number has been inserted in the file, however, the family is eligible for the same $325 payment. Table 7 shows the impact of some of these "technical errors" on the official error rate.

Finally, the official error rate includes both agency and client errors. Table 8 shows the percent of total error cases that can be attributed to either the agency or the client as well as the total number of error cases on which these percentages are based. Agency errors can include simple arithmetical mistakes, incorrect policy applications, and inadequate verification. Client errors may be the result of mistakes in understanding, failure to report information on a timely basis or outright recipient fraud. It is not possible to distinguish between these various causes of error using existing quality control data.

TABLE 6.—MAJOR TYPES OF ERROR BY STATE, OCTOBER 1981–MARCH 1982, PROGRAM AREA IN ERROR, TOTAL ERROR CASES AS A PERCENT OF TOTAL CASES [1]

State	Total number of sample cases	Percent of total cases				
		Basic program requirements [3]	Resources [4]	Need-income [5]	Need-requirements [6]	Other
Total [2]	37,468	5.1	0.5	6.9	2.1	0.7
Alabama	1,120	3.8	0.1	4.4	......	0.6
Alaska	159	5.7	1.3	11.3	1.3	1.9
Arizona	383	6.5	1.8	6.8	2.3	2.1
Arkansas	532	3.2	0.6	7.0	......	0.9
California	1,151	5.2	0.5	7.0	0.8	0.4
Colorado	463	4.3	......	8.0	1.1	0.7
Connecticut	889	5.7	0.6	3.9	1.3	0.3
Delaware	152	7.2	......	8.6	1.3	......
District of Columbia	490	18.4	......	12.7	0.4	0.4
Florida	1,235	4.1	0.4	7.3	0.7	0.6
Georgia	1,206	1.8	0.2	6.7	0.1	0.4
Hawaii	314	5.1	2.9	8.6	2.9	0.3
Idaho	165	1.8	0.6	7.3	5.5	0.6
Illinois	1,186	6.4	......	5.4	0.1	0.3
Indiana	1,031	1.4	0.1	4.7	4.8	0.5
Iowa	589	1.7	1.0	5.3	0.2	......
Kansas	390	1.5	0.5	5.9	0.8	0.3
Kentucky	1,054	2.1	0.3	3.2	......	0.9
Lousiana	1,221	3.2	0.4	8.1	......	1.5
Maine	337	3.3	1.2	6.5	......	......

TABLE 6.—MAJOR TYPES OF ERROR BY STATE, OCTOBER 1981–MARCH 1982, PROGRAM AREA IN ERROR, TOTAL ERROR CASES AS A PERCENT OF TOTAL CASES [1]—Continued

State	Total number of sample cases	Percent of total cases				
		Basic program requirements [3]	Resources [4]	Need-income [5]	Need-requirements [6]	Other
Maryland	1,236	5.4	0.6	7.5	....	0.5
Massachusetts	1,184	3.5	1.4	8.5	0.7	0.4
Michigan	1,186	5.2	1.3	7.7	8.9	1.5
Minnesota	883	2.4	0.3	4.0	....	0.6
Mississippi	1,042	1.2	0.5	7.3	0.2	0.1
Missouri	1,322	3.5	0.1	8.0	0.1	0.2
Montana	158	1.3	....	5.1	0.6	....
Nebraska	211	3.8	....	8.1	....	0.5
Nevada	160	0.6	....	4.4	0.6	....
New Hamphsire	146	2.7	0.7	8.2	9.6	1.4
New Jersey	1,155	8.6	0.2	7.6	0.6	0.1
New Mexico	304	6.3	2.6	7.2	2.6	....
New York	1,202	8.7	0.4	8.1	9.5	1.8
North Carolina	1,228	2.9	0.3	6.8	0.2	0.2
North Dakota	174	1.7	0.6	2.3	1.1	....
Ohio	1,215	4.2	0.5	5.9	0.2	0.8
Oklahoma	592	1.2	0.5	6.1	....	0.7
Oregon	632	3.0	0.5	5.1	0.8	0.3
Pennsylvania	1,183	7.7	1.1	7.7	1.1	0.2
Puerto Rico	1,085	4.1	0.6	8.1	4.8	0.8
Rhode Island	324	2.5	2.5	6.2	....	....

South Carolina	1,219	4.0	0.1	8.9	0.1	0.7
South Dakota	154	1.9	....	9.1	7.8	....
Tennessee	1,068	3.8	0.2	5.1	....	0.2
Texas	1,159	2.4	0.2	8.4	....	0.9
Utah	162	4.9	....	4.3	0.6	1.2
Vermont	157	6.4	1.3	9.6	5.7	....
Virginia	1,202	2.0	0.4	4.1	....	0.3
Washington	1,000	6.1	0.6	4.0	0.8	0.2
West Virginia	494	4.3	0.4	6.5	2.2	0.6
Wisconsin	NA	NA	NA	NA	NA	NA
Wyoming	164	4.3	0.6	2.4	....	0.6

---

[1] State-reported data for October 1981–March 1982. Includes ineligible cases and eligible cases receiving incorrect payments.

[2] Percentages are weighted by the proportion of each State's average caseload to the national average. Excludes Wisconsin.

[3] Basic program requirements: age; school attendance; living with a specified relative; deprivation (incapacity, continued absence, unemployment); WIN program registration; citizenship and alienage; residence; social security number; child support (assignment and cooperation); and monthly report.

[4] Resource items: real property; life insurance; bank deposits or cash on hand; motor vehicle; other.

[5] Need-income items: earned income; work incentive exemptions; mandatory deductions; work-related expenses; child care expenses; deemed income disregards; RSDI benefits; veteran's benefits; unemployment compensation; workmen's compensation; support payments made to IV–D agency; contributions; non-earned income disregards; deemed income.

[6] Need-requirement items: shelter only, fuel and/or utilities only; basic budgetary allowance(s) other than shelter, fuel and utilities; shelter combined with fuel and/or utilities; shelter and other basic budgetary allowances (excluding fuel and utilities); all basic budgetary allowances; special diet; transportation; child care; other.

NA—Not available.

Source: Department of Health and Human Services, Social Security Administration, Office of Family Assistance.

TABLE 7.—COMPARISON OF OFFICIAL AFDC ERROR RATES WITH PAYMENT ERROR RATES EXCLUDING SSN AND WIN, OCTOBER 1980–MARCH 1981

	Official	Excluding	
		SSN	SSN/WIN
U.S. average	8.3	7.6	7.1
Alabama	8.3	6.9	6.4
Alaska	13.8	13.7	13.5
Arizona	8.7	8.7	8.6
Arkansas	6.6	6.5	6.3
California	8.6	7.4	6.7
Colorado	10.0	6.8	6.0
Connecticut	8.0	7.6	7.2
Delaware	12.8	9.0	8.2
District of Columbia	15.1	14.1	12.3
Florida	7.5	7.3	6.9
Georgia	7.3	6.9	6.5
Hawaii	10.1	9.4	9.0
Idaho	12.7	10.4	11.2
Illinois	8.6	8.4	8.3
Indiana	5.1	5.0	4.3
Iowa	4.4	3.9	3.6
Kansas	7.5	7.5	7.0
Kentucky	5.5	5.1	4.9
Louisiana	5.8	5.0	4.9
Maine	8.6	7.9	7.1
Maryland	11.8	11.2	10.7
Massachusetts	11.1	10.8	10.0
Michigan	6.9	6.9	6.7
Minnesota	3.8	3.7	3.7
Mississippi	7.3	7.3	6.8
Missouri	6.5	6.3	5.8
Montana	6.9	6.5	6.3
Nebraska	4.1	3.0	2.6
Nevada	2.5	2.5	2.5
New Hampshire	5.5	5.4	5.1
New Jersey	8.4	6.6	5.3
New Mexico	12.4	11.2	10.8
New York	9.1	8.6	8.3
North Carolina	6.2	6.0	5.7
North Dakota	3.3	3.1	2.8
Ohio	8.4	8.2	7.7
Oklahoma	4.9	4.9	4.7
Oregon	6.7	6.5	6.4
Pennsylvania	9.8	8.9	7.7
Puerto Rico	10.0	9.3	8.5
Rhode Island	6.8	4.2	3.4

TABLE 7.—COMPARISON OF OFFICIAL AFDC ERROR RATES WITH PAYMENT ERROR RATES EXCLUDING SSN AND WIN, OCTOBER 1980–MARCH 1981—Continued

	Official	Excluding	
		SSN	SSN/WIN
South Carolina	7.4	5.8	4.9
South Dakota	7.2	5.6	5.4
Tennessee	10.2	8.6	7.9
Texas	7.1	6.5	6.1
Utah	6.0	5.0	5.0
Vermont	3.8	3.5	3.4
Virginia	3.7	3.3	1.2
Virgin Islands	8.1	8.1	7.5
Washington	9.8	9.4	8.9
West Virginia	7.1	5.3	5.0
Wisconsin	9.4	7.9	7.2
Wyoming	18.9	10.1	9.5

Source: Department of Health and Human Services, Social Security Administration, Office of Family Assistance.

TABLE 8.—AGENCY AND CLIENT ERRORS, ERROR CASES AS A PERCENT OF TOTAL AFDC ERROR CASES, OCTOBER 1981–MARCH 1982 [1]

State	Total number of error cases	Percent of total error cases attributed to [2]—	
		Agency	Client
Total	4,992	50.5	49.5
Alabama	100	47.0	53.0
Alaska	34	41.2	58.8
Arizona	75	52.0	48.0
Arkansas	62	30.6	69.4
California	161	62.7	37.3
Colorado	65	56.8	43.2
Connecticut	106	35.8	64.2
Delaware	26	61.5	38.5
District of Columbia	156	41.7	58.3
Florida	163	38.7	61.3
Georgia	111	41.4	58.6
Hawaii	62	46.8	53.2
Idaho	26	57.7	42.3
Illinois	144	56.4	43.6
Indiana	117	54.7	45.3
Iowa	48	41.7	58.3
Kansas	35	22.9	77.1
Kentucky	68	50.0	50.0
Louisiana	161	37.9	62.1
Maine	37	40.5	59.5

TABLE 8.—AGENCY AND CLIENT ERRORS, ERROR CASES AS A PERCENT OF TOTAL AFDC ERROR CASES, OCTOBER 1981–MARCH 1982 [1]—Continued

State	Total number of error cases	Percent of total error cases attributed to [2]—	
		Agency	Client
Maryland	173	23.1	76.9
Massachusetts	172	44.2	55.8
Michigan	291	52.9	47.1
Minnesota	64	64.1	35.9
Mississippi	97	28.9	71.1
Missouri	156	57.1	42.9
Montana	11	63.6	36.4
Nebraska	26	65.4	34.6
Nevada	9	33.3	66.7
New Hampshire	33	48.5	51.5
New Jersey	197	44.7	55.3
New Mexico	59	27.1	72.9
New York	342	56.7	43.3
North Carolina	128	47.7	52.3
North Dakota	10	30.0	70.0
Ohio	141	54.6	45.4
Oklahoma	50	34.0	66.0
Oregon	61	36.1	63.9
Pennsylvania	210	60.5	39.5
Puerto Rico	200	64.0	36.0
Rhode Island	36	52.8	47.2
South Carolina	169	44.4	55.6
South Dakota	29	48.3	51.7
Tennessee	99	40.4	59.6
Texas	137	34.3	65.7
Utah	18	33.3	66.7
Vermont	36	61.1	38.9
Virginia	82	39.0	61.0
Washington	117	39.3	60.7
West Virginia	69	42.0	58.0
Wisconsin	NA	NA	NA
Wyoming	13	61.5	38.5

---

[1] State-only data from AFDC quality control reviews. Includes ineligible and eligible cases receiving incorrect payments.

[2] Percentages are weighted by the proportion of each State's average caseload to the national average. Data for Wisconsin were not available.

NA: Not available.

Source: Department of Health and Human Services, Social Security Administration, Office of Family Assistance.

PART 2

TRUST FUNDS (OR SPECIAL FUNDS) WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Section 1. Black Lung Disability Trust Fund
Section 2. Airport and Airway Trust Fund
Section 3. Highway Trust Fund
Section 4. Aquatic Resources Trust Fund
Section 5. Superfunds
    (A) Hazardous Substance Response Trust Fund
    (B) Post-closure Liability Trust Fund
Section 6. Inland Waterways Trust Fund
Section 7. Land and Water Conservation Fund
Section 8. Wildlife Restoration Projects
Section 9. Reforestation Trust Fund
Section 10. Deep Seabed Revenue Sharing Trust Fund
Section 11. Tax Court Judges Survivors Annuity Fund
Section 12. Railroad Retirement System
Section 13. Railroad Unemployment Compensation System

Section 1. Black Lung Disability Trust Fund

LEGISLATIVE HISTORY AND JURISDICTION

National attention was focused on the working conditions of coal miners following a West Virginia coal mine accident in 1968 that killed 78 workers. Congressional hearings the following year on reform of the coal mine safety laws also examined the problems of coal workers' pneumoconiosis, or black lung disease. The Federal Coal Mine Health and Safety Act of 1969 established Federal minimum standards for mines in order to protect the safety and health of coal miners. In addition, title IV of the act provided benefits for miners totally disabled by black lung disease and for dependents of miners who had died from the disease or were totally disabled from the disease at death.

The 1969 act was the first effort, at any level of government, to provide benefits exclusively to the victims of a single occupational disease. This was also the first time the Federal Government took major responsibility in the traditionally State-administered area of workers' compensation. The 1969 act was amended by the Black Lung Benefits Act of 1972, the Black Lung Benefits Reform Act of 1977, the Black Lung Revenue Act of 1977, and the Black Lung Benefits Revenue Act of 1981.

The statutory provisions of the act as amended are contained in 30 U.S.C. sections 901 et seq. and in the Internal Revenue Code of 1954 sections 4121, 4218, 4951, 4952, 4953, and 9501, et seq.

There are two distinct programs of black lung benefits under title IV: part B and part C. The part B program is financed by Federal general revenues and is administered by the Social Security Administration (SSA). Benefits under part B are payable only for claims filed on or before June 30, 1973, (December 31, 1973, in the case of survivors) and thus no new beneficiaries can be added to the rolls. The part C program is administered by the Department of Labor (DOL) and generally applies to claims filed after June 30, 1973. Benefits under part C are paid either by the "responsible" coal mine operator or by the Black Lung Disability Trust Fund.

The Black Lung Disability Trust Fund was created in 1978 pursuant to the Black Lung Benefits Revenue Act of 1977 (Public Law 95-227). In 1981, the statutory provisions of the Black Lung Disability Trust Fund were transferred to the Internal Revenue Code by the Black Lung Benefits Revenue Act of 1981 (Public Law 97-119).

The Committee on Ways and Means has jurisdiction over the excise tax on coal, the structure and administration of the Black Lung Disability Trust Fund, the expenditure purposes of the Trust Fund and tax provisions as to the coal mine operators' self-insurance trusts. The Committee on Education and Labor has jurisdiction over eligibility and evidentiary standards, claims adjudication, and related benefit provisions.

BENEFIT STRUCTURE

Generally, the Black Lung Disability Trust Fund ("Trust Fund") is required to pay benefits with respect to part C claims (claims filed *after* June 30, 1973) in which the miner's last coal mine employment was *before* January 1, 1970. Part B claims (claims filed on or *before* June 30, 1973) are generally paid by the Social Security Administration out of the general revenues of the Treasury, not the Trust Fund. If a miner's last coal mine employment was *after* January 1, 1970, and the claim was filed *after* June 30, 1973, benefits are paid by the coal mine operator judged to be responsible, the so-called "responsible operator," not the Trust Fund. The Trust Fund pays benefits if there is no responsible operator among the miner's employers or if the responsible operator is in default. Under the Black Lung Benefits Revenue Act of 1981, liability for certain claims which had been denied prior to March 1, 1978, but which were reviewed and approved under the liberalized eligibility criteria of the Black Lung Benefits Reform Act of 1977, was also transferred to the Trust Fund. When an operator is determined to be responsible for the payment of benefits which in fact have been paid out of the Trust Fund, then the operator is obligated to reimburse the Trust Fund for those amounts plus interest.

The expenses of the Department of Labor and the administrative expenses of the Department of Health and Human Services for the claims program financed through the Trust Fund are paid out of the trust fund monies. The Trust Fund also bears the cost of its own administration as well as the costs of administering the collection of the excise tax on coal.

A claim under part B or C must meet three general conditions in order to be approved for black lung disability benefits: (1) the miner must have (or, if deceased, have had) pneumoconiosis; (2) the miner must be totally disabled by the disease (or must have been totally disabled at the time of death); and (3) the pneumoconiosis must have arisen out of coal mine employment. There are certain statutory presumptions that are used to establish eligibility.

TABLE 1.—NUMBER OF PART C BENEFICIARIES

[Calendar years]

Class of beneficiary	1979	1980	1981	1982	1983	1984
Primary beneficiaries:						
Miners	30,739	52,922	62,787	61,727	64,203	62,785
Widows	19,366	26,739	30,517	32,689	35,188	36,495
Others	605	1,189	1,831	818	809	854
Total primary beneficiaries	50,710	80,850	95,135	95,234	100,200	100,134
Dependents of primary beneficiaries:						
Dependents of miners	31,184	54,624	63,854	73,137	NA	NA
Dependents of widows	1,678	2,747	3,282	4,975	NA	NA
Dependents of others	315	852	1,130	626	NA	NA
Total dependents	33,177	58,223	68,266	78,738	62,557	62,982
All beneficiaries	83,887	139,073	163,401	173,972	162,757	163,116

Source: Department of Labor.
NA—Not available.

TABLE 2.—NUMBER OF PART B BENEFICIARIES

[December 1970–82, September 1983 and 1984]

Class of beneficiary	1970	1974	1980	1981	1982	1983	1984
Miners	43,921	169,097	120,235	111,249	102,234	95,587	87,385
Widows	24,889	134,700	146,603	146,173	144,863	143,449	141,382
Others	43,166	183,419	132,639	119,083	107,472	99,349	89,163
Total	111,976	487,216	399,477	376,505	354,569	338,385	317,930

Source: Social Security Bulletin.

The basic monthly benefit for a miner totally disabled from black lung or a survivor is 37½ percent of the monthly pay of a Federal employee in grade GS–2, step 1. A totally disabled miner or survivor with one dependent receives the basic monthly benefit rate increased by 50 percent. If the miner or survivor has two dependents, the benefit rate is increased by 75 percent, and if there are three or more dependents, the rate is increased by 100 percent. Benefit rates are revised each year to reflect any revision in Federal pay scales. The rates as of January 1985 were:

Miner or one survivor—$328.20.
Miner or survivor with one dependent—$492.30.
Miner or survivor with two dependents—$574.30.
Miner or survivor with three or more dependents—$656.40.

Black lung benefits are not taxed by the Federal Government, although States may do so.

Reductions in black lung benefits or the offset of black lung benefits against other benefits are subject to significantly different rules depending upon whether the benefits are paid under part B or part C. Under part B, black lung benefits are reduced by any payments received under the workers' compensation, unemployment compensation or disability insurance laws of a State if such payments are for death or disability due to pneumoconiosis. If the State payments are made for reasons other than pneumoconiosis, black lung benefits are not reduced. Part C benefits are reduced for State or Federal workers' compensation (but *not* for unemployment compensation or disability insurance) in the same manner.

Under part B, miners or their parents, brothers or sisters (but not their spouse or children) have always been subject to an earnings test which causes their black lung benefits to be reduced as defined in section 203 of the Social Security Act (the same earnings test for social security recipients). This excess earnings offset does *not* apply to benefits payable under part C, unless the claim for benefits was filed on or after January 1, 1982.

Under part B, black lung benefits are not considered workers' compensation payments and therefore are not considered in calculating any social security disability payments under Title II of the Social Security Act. However under part C, exactly the opposite is the case, and black lung benefits must be taken into account.

Survivor benefits under the black lung program are not reduced as a result of social security survivor benefits.

A miner (but not a miner's family or survivors) receiving black lung cash benefits is eligible for medical and rehabilitation benefits including treatment and/or medications prescribed for the miner's black lung disease and directly associated illnesses. Medical costs are paid either by a responsible coal mine operator or by the Trust Fund, whichever is responsible for payment of regular monthly benefits.

FINANCING MECHANISM

A manufacturers' excise tax is imposed on domestically mined coal (other than lignite) which is sold or used by the producer (Internal Revenue Code sections 4121 and 4218). The pre-1982 rate of tax was the lesser of (1) 50 cents per ton for coal from underground mines and 25 cents per ton for coal from surface mines, or (2) 2 percent of the price for which the coal was sold.

A temporary increase of these excise taxes was enacted in 1981 (Public Law 97-119), effective January 1, 1982. As a result, the current tax is the lesser of (1) $1 per ton for coal from underground mines and 50 cents per ton for coal from surface mines, or (2) 4 percent of the price for which the coal is sold. The temporary tax increase will expire on January 1, 1996, or earlier, if the Black Lung Disability Trust Fund becomes solvent (i.e., the tax will revert to pre-1982 levels).

Amounts equal to the revenues from this excise tax (plus any revenues from the penalty tax on taxable expenditures from a coal mine operator self-insurance trust, described below) are automatically appropriated to the Black Lung Disability Trust Fund.

A responsible operator may fund its liability for black lung benefits through deductible contributions to a qualified tax-exempt trust (code section 501(c)(21)), called coal mine operators' self-insurance trusts. Misuse of a trust due to self-dealing (code section 4951) and expenditures for an improper purpose (code section 4953), trigger certain penalty excise taxes. Amounts collected under these provisions, which in the past have been very small, are appropriated to the Black Lung Disability Trust Fund.

Financial Status of Trust Fund

The Trust Fund has been operating at a deficit since its establishment in 1978. As of fiscal year 1984, the Trust Fund has paid out over $3.8 billion in cash benefits and medical expenses, along with approximately $240 million in administrative costs. It also has accumulated over $700 million in interest charges. At the same time, the excise tax on coal has generated only approximately $2.3 billion in revenues leaving a cumulative deficit of $2.5 billion through fiscal year 1984. This deficit has been financed with advances from the general revenues of the U.S. Treasury which must be repaid with interest from future trust fund revenues.

Table 3 shows the status of the Trust Fund as of the end of fiscal year 1984.

TABLE 3.—STATUS OF BLACK LUNG DISABILITY TRUST FUND

[In thousands of dollars]

Fiscal year	Income			Outgo		
	Coal tonnage tax	Interest	Advances from general fund	Benefit payments	Administrative expenses	Interest on advances
Actual:						
1978	92,050	1,192	18,925	76,797	35,346	
1979	221,614	122	400,809	582,038	32,149	7,740
1980	272,262		535,837	721,746	34,238	52,497
1981	236,635		554,778	644,288	35,585	109,488
1982	490,746	254	283,002	578,244	35,789	160,597
1983	493,685	321	357,773	623,129	34,936	193,273
1984	518,464	450	346,063	594,213	36,551	234,503
Total	2,325,456	2,339	2,497,187	3,820,455	244,594	758,098

Source: Fourth Annual Report on the Financial Condition and Results of Operations of the Black Lung Disability Trust Fund (Department of Treasury, September 30, 1981), and Budget of the U.S. Government, Appendixes for fiscal years 1984, 1985, and 1986.

The most recent available (January 1984) estimates of the projected status of the Black Lung Disability Trust Fund indicate that it is expected to attain total solvency by 2007, and cease borrowing from the general revenues of the Treasury by 1997.

Section 2. Airport and Airway Trust Fund

LEGISLATIVE HISTORY

1970 Act and 1971 Amendment

The Airport and Airway Trust Fund was established as of July 1, 1970, by the Airport and Airway Revenue Act of 1970 (Title II of the Airport and Airway Development Act of 1970, Public Law 91-258). The 1970 Act provided that new and increased aviation user taxes were to be deposited into the Trust Fund and, with interest earned on the deposits, were to be available to meet specified airport and airway obligations of the United States incurred under Title I of the 1970 Act, as it was in effect on the date of enactment. Amounts in the Trust Fund were available for making specified expenditures, as provided in appropriations acts, until July 1, 1980.

The 1970 Act authorized Trust Fund expenditures for the maintenance and operation of air navigation facilities, qualified airport planning and construction purposes, airway facilities and equipment, research and development, safety, and related departmental administrative expenses. However, a 1971 amendment (Public Law 92-174) to Title I of the 1970 Act removed the authority for spending Trust Fund monies for maintenance and operation of the airway system. This amendment also limited the authority for meeting administrative costs from the Trust Fund to only such administrative expenses related to the remaining authorized purposes.

1973 Amendment

A 1973 amendment (Public Law 93-44) to Title I of the 1970 Act increased the authorization levels for airport grants for fiscal years 1974 and 1975, increased the Federal share for certain airport grants and safety and security equipment costs, and amended the definition of airport development to specifically include security equipment required under regulations of the Department of Transportation.

1976 Amendment

The Airport and Airway Development Act Amendments of 1976 (Public Law 94-353) further amended Title I of the 1970 Act to include several additional expenditure categories to be authorized from the Trust Fund. The new expenditure categories were: snow removal equipment; noise suppressing equipment; construction of physical barriers and landscaping for the purpose of reducing the effect of aircraft noise in areas adjacent to public airports; acquisition of land or property interest for airport noise control purposes; airport terminal development (the public, nonrevenue-producing areas, including baggage facilities and passenger moving equipment); and specified amounts for maintenance of airway facilities. Thus, the 1971 prohibition against authorizing airway operating and maintenance costs from the Trust Fund was partially removed by the 1976 amendment. In addition, the 1976 amendment provided authorization levels for airport grants and other existing Trust Fund expenditure programs through fiscal year 1980, and increased the Federal share for certain airport grants for fiscal years 1977 and 1978.

The Committee on Ways and Means offered a Committee amendment as Title III to the 1976 Act Amendments which amended the Trust Fund language to conform it to the authorization provisions approved by the Committee on Public Works and Transportation and to permit expenditures from the Fund to be made until October 1, 1980 (instead of July 1, 1980). The Committee on Ways and Means initially declined to allow expenditures from the Trust Fund for terminal facilities; however, this expenditure purpose was eventually approved by a separate vote of the House.

1979 Amendment

The Aviation Safety and Noise Abatement Act of 1979 (Public Law 96-193) further amended Title I of the 1970 Act to authorize Trust Fund appropriations for airport noise compatibility planning programs and airport noise compatibility grants and to increase the airport development authorization amounts for fiscal year 1980. In addition, the Act amended the Trust Fund language (section 208(f)(1)(A) of the Airport and Airway Revenue Act of 1970; 49 U.S.C. 1742(f)(1)(A)) to conform to the 1979 amendments.

1980 Amendment

In 1980, Public Law 96-298 was enacted to extend the aviation excise taxes and require the deposit of the revenues from these taxes into the Trust Fund from July 1, 1980 until October 1, 1980. In 1980, the Committee on Ways and Means also reported the Airport and Airway Revenue Act of 1980 as a Committee amendment, to be offered as Title II to H.R. 6721, in order to extend aviation excise taxes and the Trust Fund until October 1, 1985. However, the bill was not considered by the House prior to the adjournment of the 96th Congress. As a result, expenditures from the Trust Fund were not authorized after September 30, 1980; further, on October 1 many of the aviation excise taxes automatically expired or were reduced, and the deposit of the remaining aviation excise tax revenues into the Trust Fund was terminated.

1981 Amendment

In 1981, the Committee on Ways and Means approved a technical and conforming amendment to the Trust Fund provisions in order to allow expenditures to be made from the Trust Fund through September 30, 1981. The Committee amendment was included in H.R. 4182, the fiscal year 1981 Airport Development Authorization Act, which was approved by the House in July 1981. The provisions of H.R. 4182 were later enacted as part of the Omnibus Budget Reconciliation Act of 1981, Public Law 97-35.

Also in 1981, the House Committee on Public Works and Transportation approved H.R. 2643 to set funding levels for airport and airway programs for fiscal years 1982 and 1983. At the adjournment of the first session of the 97th Congress, a financing title for the bill was pending in the Committee on Ways and Means.

1982 Amendment

On May 12, 1982, the Committee on Ways and Means reported H.R. 4800 as a financing title for H.R. 2643; the bill extended and reinstated various aviation excise taxes and the Airport and Airway Trust Fund for the period July 1, 1982, through December 31, 1983.

Title V of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) contained the provisions of the Airport and Airway Improvement Act of 1982, authorizing spending out of the Trust Fund for airport programs at higher levels over the period fiscal years 1982 through 1987. Aviation excise tax provisions (similar to those in H.R. 4800) were also included in title III of TEFRA to raise sufficient revenue to fund the airport and airway spending authorized in title V of the Act. The various aviation excise taxes were extended and reinstated, some at higher tax rates, for the period September 1, 1982, through December 31, 1987 (see following table). Three modifications were made in the passenger ticket tax and an exemption was provided from the fuel and ticket taxes for helicopters used in timber operations or hard mineral exploration or development where the Federal aviation system and Federal-aid airports are not utilized. The Airport and Airway Trust Fund was extended through fiscal year 1987 and its expenditure purposes were updated to include the changes made in title V. (Adjustments in certain of the airport and airway spending programs were subsequently made in H.R. 6211 (P.L 97-424), and conforming cross references in the Trust Fund provisions were also included.) The Trust Fund provisions were also transferred to the Internal Revenue Code, effective September 1, 1982.

1984 Amendment

The Deficit Reduction Act of 1984 (Public Law 98-369) expanded the previous exemptions from the aircraft fuels and air transportation taxes for helicopters not using federally aided airports or Federal airway facilties to include helicopters employed in the exploration and development of oil and gas (effective on April 1, 1984).

FINANCING MECHANISM

The Airport and Airway Trust Fund is financed by several aviation excise taxes. As noted above, these excise taxes were reimposed or increased in TEFRA of 1982. Generally these taxes are the same as in effect before October 1, 1980, except that the aviation fuel taxes are now at higher rates. The following table sets forth the taxes and rates under prior law and those presently in effect:

TABLE 1.—SCHEDULE OF AIRPORT AND AIRWAY TRUST FUND EXCISE TAXES

Tax (and code section)	Prior law (July 1, 1970–Oct. 1, 1980) rate	Rate Oct. 1, 1980–Aug. 31, 1982	Present law rate (Sept. 1, 1982–Dec. 31, 1987)
Air passenger ticket tax (sec. 4261(a), (b) and (d)) [1] [2].	8 percent	5 percent	8 percent.
Air freight waybill tax (sec. 4271).	5 percent	0	5 percent.
International departure tax (sec. 4261(c)).	$3 per person	0	$3 per person.
Fuels tax for noncommercial (general) aviation (sec. 4041(c)) [2].	7 cents per gallon.	[3] 4 cents per gallon.	12 cents per gallon on gasoline; 14 cents per gallon on other fuels.
Aircraft use tax [2]	([4])	0	0.
Aircraft tires tax (sec. 4071) [5]	5 cents per pound.	4.875 cents per pound.	[5] 4.875 cents per pound.
Aircraft tubes tax (sec. 4071) [5]	10 cents per pound.	10 cents per pound.	[5] 10 cents per pound.

---

[1] Air transportation between the United States and a foreign station which is not more than 225 miles from the nearest point in the continental United States, as well as between two such foreign stations, generally is subject to this tax where payment for the travel is made in the United States. The 1982 amendments permit the Secretary to waive the 225-mile zone rule if Canada or Mexico enter into a "qualified agreement". This tax does not apply to transportation between the United States and other foreign stations where payment is made outside the United States, nor does it apply to the U.S. portions of certain uninterrupted international air transportation (where the layover does not exceed 12 hours). Also, the air passenger ticket tax does not apply to the portion of flights to or from Alaska and Hawaii which are not made over the United States (Code sec. 4262).

[2] The tax does not apply to aircraft owned by a tax-exempt museum operated exclusively for the procurement, care, and exhibition of World War II aircraft (defined in sec. 4041(h)). Certain helicopters are exempt under the 1982 and 1984 amendments.

[3] The 7 cents a gallon tax on jet fuel expired on October 1, 1980; the 4 cents a gallon tax applied only to aviation gasoline from Oct. 1, 1980 through August 31, 1982.

[4] An annual tax of two parts: (1) a $25 annual per plane tax, plus (2) a weight tax of 3½ cents per pound for turbine-power (jet) aircraft and 2 cents per pound for nonturbine-powered aircraft for each pound in excess of 2,500 pounds of "maximum certificated takeoff weight." However, for the period July 1, 1980–September 30, 1980, the use tax was one-fourth the applicable annual rates.

[5] Under the provisions of H.R. 6211 (PL 97–424), the taxes on inner tubes and non-highway tires were repealed, effective Jan. 1, 1984.

The passenger ticket tax applies to air passenger transportation within the United States, while the $3 per passenger international departure tax applies to flights abroad beginning in the United States and to flights to and from Alaska and Hawaii. The freight waybill tax applies to the transportation of property by air which begins and ends in the United States. Aircraft not subject to these passenger or freight taxes are subject to the fuel taxes noted above; exemptions are provided for aviation fuels used on farms or used for farming purposes or by a State or local government or a non-profit educational organization. Also, under the 1982 and 1984 Acts, certain helicopters are exempt from the fuels and ticket taxes if used in timber or hard mineral operations or oil and gas exploration or development where the Federal aviation system and Federal-aid airports are not used.

EXPENDITURE PURPOSES

The present Trust Fund statute authorizes obligations incurred under Title I of the 1970 Act, under the 1976 Act Amendments, under the 1979 Act amendments, under the Fiscal Year 1981 Authorization Act, or under the Airport and Airway Improvement Act of 1982, as such Acts were in effect on the date of enactment of the 1982 Act.

The Airport and Airway Trust Fund expenditure programs authorized under present law are generally as follows:

1. *Airport Development Aid Program (ADAP)*—
   - (a) *Airport planning*—Grants to planning agencies for airport system planning and public agencies for airport master planning; also, airport noise compatibility planning grants for air carrier airports eligible for terminal development costs.
   - (b) *Airport construction*—Construction, improvement or repair of a public airport (includes removal of airport hazards and construction of physical barriers and landscaping to diminish noise).
   - (c) *Airport terminal facilities*—Non-revenue-producing public-use areas which are directly related to movement of passengers and baggage at certificated air carrier airports having required safety and security equipment (include baggage facilities and passenger-moving equipment); does not include costs of construction of public parking facility for passenger automobiles or costs of construction, alteration, or repair of a hanger or any airport building unless used to house facilities or activities directly related to safety of persons at the airport. These facilities include multimodal terminal development and bond retirement for certain airports.
   - (d) *Land acquisition*—Includes land or property interests for airport noise control purposes.
   - (e) *Airport-related equipment*—Airport security equipment required by DOT regulations, snow removal equipment, noise suppressing equipment, navigation aids, and safety equipment required for airport certification.
   - (f) *Airport noise compatibility programs*—Includes soundproofing of public buildings; local governmental units are eligible for project grants as well as airports.
2. *Facilities and Equipment Program (F&E)*—Costs of acquiring, establishing, and improving air navigation facilities.
3. *Research, Engineering, Development, and Demonstration Program (R&D)*—Projects in connection with FAA research and development activities.
4. *Operations and Maintenance Programs (O&M)*—Flight check and maintenance of air navigation facilities; services provided under international agreements relating to the U.S. share of joint provision of air navigation services.
5. *Other costs*—Certain airline costs of international passenger security screening facilities.

MISCELLANEOUS

The Secretary of the Treasury is required to report to the Congress each year on the financial condition of the Trust Fund.

The Committee on Public Works and Transportation has jurisdiction over airport and airway development and improvement programs.

The statutory provisions establishing the Airport and Airway Trust Fund and governing its operations are located at section 9502 of the Internal Revenue Code.

FINANCIAL STATUS OF TRUST FUND

Table 2 is based on the Department of the Treasury's Annual Reports on the Trust Fund and the Appendix to the U.S. Budget for fiscal years 1979-1986, and it sets forth the Fund's receipts and outlays for fiscal years 1971 through 1986.

Table 2 also contains cash balances in the Trust Fund at the end of each fiscal year since 1971. However, it must be noted that large portions of the unexpended balance are committed to liquidate outstanding unfunded obligations and unexpended appropriations. Table 3 sets forth the balances remaining in the Fund after these commitments have been taken into account, called the uncommitted balances, for fiscal years 1977 through 1986.

TABLE 2.—STATUS OF AIRPORT AND AIRWAY TRUST FUND, FISCAL YEARS 1971 THROUGH 1986

[In millions of dollars]

Fiscal year	Receipts				Outlays	Cash balance in the fund [2]
	Excise taxes, net	Interest on investments	Other [1]	Total		
1971	563	...	621	1,184	287	897
1972	649	...	902	1,551	1,389	1,058
1973	758	...	69	828	699	1,187
1974	840	28	...	868	521	1,534
1975	962	96	...	1,058	579	2,013
1976	938	146	...	1,084	547	2,550
T.Q	277	1	...	278	92	2,736
1977	1,191	194	...	1,384	853	3,268
1978	1,326	219	...	1,545	1,115	3,698
1979	1,526	282	...	1,809	1,114	4,392
1980	1,874	400	...	2,274	1,224	5,442
1981	21	561	...	582	1,306	4,719
1982	133	542	...	674	1,512	3,882
1983	2,165	533	...	2,698	1,792	4,787
1984	2,499	546	...	3,045	1,392	6,441
1985	2,942	790	...	3,733	2,694	7,479
1986	3,197	...	...	3,197	3,884	6,792

[1] Amounts appropriated from the general fund and unexpended balances of certain general fund accounts transferred to the Trust Fund.

[2] Large portions of the unexpended balance are committed to liquidate outstanding unfunded obligations (contract authority) and to liquidate unexpended appropriations. Also, funds equivalent to cumulative shortfalls below minimum annual obligation levels must be reserved for future expenditure.

Source: "Appendix to the U.S. Budget for Fiscal Years 1979–1986.

TABLE 3.—AIRPORT AND AIRWAY TRUST FUND UNCOMMITTED BALANCES—FISCAL YEARS 1977 THROUGH 1986

Uncommitted balance end of fiscal year	Millions of dollars
1977	1,709
1978	2,182
1979	2,742
1980	3,686
1981	3,021
1982	2,156
1983	1,882
1984	2,234
1985 (estimate)	2,166
1986 (estimate)	683

Source: Appendix to the U.S. Budget for Fiscal Years 1979–86.

Section 3. Highway Trust Fund

LEGISLATIVE HISTORY

Development of the Trust Fund and Highway Tax Revenue Sources

The Highway Trust Fund was established in 1956 (Public Law 84–627) for a 16-year period to provide a specific source of financing for the new Interstate System and continuation of other Federal aid-highway programs. The other highway-aid programs previously had been financed through the general fund. The 1956 legislation increased certain highway user taxes, primarily the taxes on motor fuels (from 2 cents a gallon to 3 cents a gallon), and imposed a new highway user tax on heavy highway motor vehicles. Initially, the Trust Fund was financed by the proceeds of the following highway user excise taxes: the manufacturers' taxes on gasoline for highway use, and tires, tubes, and tread rubber for highway use; a portion of the manufacturers' tax on trucks and buses (20 percent for 1957 and 50 percent thereafter, until changed to 100 percent by 1961 legislation); the tax on use of heavy highway motor vehicles; and the retailers' tax on diesel and special motor fuels for highway use.[1]

Section 209(b) of the Highway Revenue Act of 1956 included a declaration of congressional policy that (1) if it appears that the total receipts of the Trust Fund will be less than the total expenditures from the Trust Fund, or (2) if it appears that the distribution of the tax burden among the various classes of highway users or other beneficiaries of the highways is not equitable, then Congress is to enact legislation to bring about a balance of total Trust Fund receipts and expenditures or to make an equitable distribution of the tax burden. In addition, the 1956 Act provided for a 3-year highway cost allocation study (later extended for 2 additional years) to determine the fair distribution of highway-related user taxes among the various users.

---

[1] The Airport and Airway Revenue Act of 1970 created the Airport and Airway Trust Fund and deposited into it the manufacturers' and retailers' taxes on aviation gasoline, the manufacturers' taxes on tires and tubes of the types used on aircraft, and the retailers' taxes on aviation fuel, as well as the taxes on transportation of persons and property by air and on use of civil aircraft.

The Land and Water Conservation Act of 1965 created the Land and Water Conservation Fund and required that the taxes on special fuels and gasoline used as motorboat fuel be transferred to that fund from the Highway Trust Fund. In addition, P.L. 96–451 authorized transfers up to $20 million per year for fiscal years 1981–1983 of revenues from the motorboat fuel taxes to the National Recreational Boating Safety and Facilities Improvement Fund. This amount was increased to $45 million in the Highway Revenue Act of 1982, through fiscal year 1988. The Deficit Reduction Act of 1984 made the fund a separate account (Boating Safety Account) within the Aquatic Resources Trust Fund.

The manufacturers' excise taxes on lubricating oil for highway use and truck and bus parts were transferred into the Trust Fund as the result of 1966 legislation.

The Revenue Act of 1971 repealed the tax on trucks and buses with gross vehicle weight of 10,000 pounds or less.

The Energy Act of 1978 repealed the manufacturers' tax on buses as well as the excise taxes on bus parts, tires and tubes, tread rubber and lubricating oil.

Further changes were made in the Highway Trust Fund taxes in the Highway Revenue Act of 1982 and in the Deficit Reduction Act of 1984.

Section 209([illegible]) of the Highway Revenue Act of 1956 also contained a provision—the "Byrd Amendment"—to prevent the Trust Fund from reaching a deficit position. In general, this provision required that if the Trust Fund balances and estimated future receipts would be inadequate to cover obligations as they become due, a reduction of the Interstate System authorization in an amount sufficient to eliminate the difference would be required.

In 1959, the tax on motor fuels was temporarily increased for 1960 and 1961 from 3 cents a gallon to 4 cents a gallon in order to finance the authorized level of Trust Fund spending. The 4-cent rate was then extended in 1961 for the life of the Trust Fund (June 30, 1972, at that time). The 1961 legislation also increased the tax rates on tires, tubes and tread rubber, doubled the tax on heavy trucks, and transferred the entire 10-percent excise tax on trucks and buses to the Trust Fund (previously, only one-half of this tax went into the Trust Fund).[2] In addition, the 1961 Act extended the Highway Trust Fund for 3 months, from June 30, 1972, to September 30, 1972, again to provide additional revenues to meet projected highway program costs.

Highway legislation in 1966 also transferred the revenues from the existing manufacturers' excise taxes on lubricating oil and truck and bus parts to the Highway Trust Fund. Thus, with respect to the highway-related excise taxes, only the tax on automobiles did not go into the Trust Fund. (The 7-percent excise tax on automobiles was later repealed by the Revenue Act of 1971.)

Subsequent Extensions of Highway Trust Fund

The Highway Trust Fund and the related highway user taxes have been extended four times since 1961: a 5-year extension in the Federal-Aid Highway Act of 1970 (from September 30, 1972, through September 30, 1977), a 2-year extension in the Federal-Aid Highway Act of 1976 (through September 30, 1979), a 5-year extension in the Surface Transportation Assistance Act of 1978 (through September 30, 1984) and a 4-year extension in the Surface Transportation Assistance Act of 1982 (through September 30, 1988). The extensions, prior to 1982, were added by the Committee on Ways and Means as a separate title to a highway authorization bill of the Committee on Public Works and Transportation and involved only the extensions of existing highway user excise taxes and tax rates. (See reference to 1982 Act below).

In the 1978 Act, the operation of the "Byrd Amendment" was modified to require that when anticipated revenues are insufficient to cover expenditures, reductions will be made on a pro rata basis to all apportioned highway funds, rather than to interstate apportionments only (sec. 209(g) of the Highway Revenue Act of 1956). In addition, an exemption from the fuels taxes was provided for fuels used by qualified taxicabs until the end of 1980 (later extended as a 4-cents-per-gallon exemption until October 1, 1985). Finally, two studies were required: a cost allocation study was required to be conducted by the Department of Transportation with a final report to Congress by January 15, 1982, and a study of the highway excise tax structure was required to be conducted by the Department of Treasury with a final report to Congress by April 15, 1982.[3]

---

[2] The 1961 Act also repealed a scheduled transfer to the Trust Fund of one-half the 10-percent excise tax on automobiles.

Highway Revenue Act of 1982

The highway user taxes and trust fund provisions were substantially revised in the Surface Transportation Assistance Act of 1982 (H.R. 6211), Public Law 97-424. Titles I and II of the Act contained authorizations for highway programs at higher levels for four fiscal years, 1983 through 1986. Accordingly, Title V, the Highway Revenue Act of 1982, extended and revised the highway user taxes and the Trust Fund for an additional 4 years, through September 30, 1988 (see following table). Those taxes and the Trust Fund are terminated on October 1, 1988.

In revising and extending the Highway Trust Fund, its provisions were codified in the Internal Revenue Code (section 9503), effective January 1, 1983. Eligible Trust Fund expenditure purposes were revised to include spending authorized under the 1982 Act. Further, the anti-deficit provision ("Byrd amendment") was revised to reduce apportionments when unfunded authorizations exceed estimated receipts for the following 24-month period. Trust Fund estimates are required quarterly.

The 1982 Act increased the amount of revenue (from the motorboat fuels taxes) that can be transferred to the Boating Safety Fund from $20 million to $45 million per year. This fund was also extended through fiscal year 1988.

The Act established a new Mass Transit Account, within the Highway Trust Fund, financed from the revenue equivalent of 1 cent of the 9 cents per gallon tax on fuels. Amounts in the Mass Transit Account are available for making capital expenditures authorized under section 21(a)(2) of the Urban Mass Transportation Act. An anti-deficit provision similar to that described above for the Highway Trust Fund, also is to be applied except that unfunded authorizations may not exceed estimated receipts for the following 12 months.

Deficit Reduction Act of 1984

The Deficit Reduction Act of 1984 (Public Law 98-369) revised several of the specific taxes imposed under the 1982 Act. These modifications are noted in the footnotes to table 1.

FINANCING MECHANISM

The highway excise taxes deposited into the Highway Trust Fund, as revised under the 1982 and 1984 Acts and in effect until October 1, 1988, are set forth in the following table, in comparison with prior law (pre-1983). Special effective dates are set forth in the footnotes.

---

[3] The 1978 amendments were contained in Title V, the Highway Revenue Act of 1978, of the 1978 Surface Transportation Assistance Act (P.L. 95-599). The highway cost allocation study was submitted in May 1982 and the highway excise tax structure study was submitted in December 1982.

TABLE 1.—HIGHWAY EXCISE TAX RATES UNDER PRESENT AND PRIOR LAW

Tax	Prior (pre-1983) rate	Present (1982 and 1984 Acts) rate[*]
Gasoline (manufacturers)	4 cents per gallon	9 cents per gallon.[1]
Diesel fuel (retail)	4 cents per gallon	15 cents per gallon.[2]
Other motor fuels (retail)	4 cents per gallon	9 cents per gallon.[1]
Lubricating oil (manufacturers)	6 cents per gallon	No tax.[3]
Trucks and trailers (manufacturers) retail.	10 percent of manufacturers sale price.	12 percent of retail sale price.[4]
Truck parts and accessories (manufacturers).	8 percent of manufacturers sale price.	No tax.[3]
Tires (manufacturers)	Highway—9.75 cents per pound[5] Nonhighway—4.875 cents per pound.[5] Laminated—1 cent per pound.[5]	Graduated rates on highway tires over 40 pounds; no tax on other tires.[5]
Innertubes (manufacturers)	10 cents per pound	No tax.[5]
Tread rubber	5 cents per pound	No tax.[5]
Annual use tax on heavy trucks	$3 per 1,000 pounds, if GVW exceeds 26,000 pounds.[6]	55,000-up $100 plus $22 per 1,000 pounds in excess of 55,000 (maximum $550).[6]

[*] These excise taxes expire on Oct. 1, 1988.

[1] Effective April 1, 1983.

[2] The 1984 Act increased the tax from 9 cents per gallon to 15 cents per gallon, effective July 1, 1984. Owners of vehicles with a gross vehicle weight of 10,000 pounds or less are allowed an advanced rebate equal to an average estimated extra tax (above 9 cents per gallon) to be paid over the life of the vehicle.

[3] Effective January 7, 1983.

[4] Under the 1982 Act, this tax will not apply to trucks under 33,000 pounds or trailers under 26,000 pounds, effective Jan. 7, 1983. Roadrailer trailers are exempt from the tax under the 1982 Act. The tax is reduced to 6 percent in the case of piggyback trailers and semitrailers sold from July 18, 1984, through July 17, 1985. The rate increase on trucks and trailers subject to the tax and the shift to the retail level are effective Apr. 1, 1983.

[5] Effective Jan. 1, 1984, the 1982 Act repealed the taxes on inner tubes, tread rubber, and all tires other than highway tires weighing over 40 pounds. The tax on these highway tires is 15 cents per pound in excess of 40 pounds for tires between 40 and 70 pounds; $4.50 plus 30 cents per pound on the excess from 70 to 90 pounds; and $10.50 plus 50 cents per pound on the excess over 90 pounds.

[6] Effective July 1, 1984. The 1982 Act would have converted the tax to a graduated rate schedule based on taxable gross weight. However, the 1984 Act reduced the heavy vehicle use tax and increased the diesel fuel tax. The tax rate is reduced by 25 percent for logging vehicles that are used exclusively to haul harvested forested products to and from the forested site and are required to be registered for that purpose. An exemption is provided for vehicles which are used on the highways for 5,000 miles or less during the year. The exemption is increased to 7,500 miles for State-registered agricultural vehicles which haul farm commodities to or from the farm. The tax is prorated where vehicles are destroyed or stolen during the year. The tax is also prorated when the vehicle is initially placed in service after the first month of the taxable year.

Under present law, exemptions from the fuels taxes are provided for fuel used on a farm or for farming purposes, fuel used in intercity, local or school buses, and 4 cents per gallon of the tax on fuel used by qualified taxicabs (the latter exemption is through September 30, 1985).[4] The 1982 Act also provided a full exemption for off-highway business use and for certain alcohol fuels. The exemption for gasohol was increased from 4 cents to 5 cents per gallon under the 1982 Act, and to 6 cents per gallon under the 1984 Act, effective from January 1, 1985, through December 31, 1992. In addition, buses are exempt from the 12-percent tax on trucks and trailers, and intercity, local and school buses are exempt from the taxes on tires, tubes, and tread rubber.[5] General exemptions are provided from these excise taxes for State and local governments and tax-exempt educational organizations. All exemptions (except gasohol) will terminate when the taxes expire on October 1, 1988.

---

[4] Under the 1982 Act, the fuel tax exemption for qualified taxicabs was extended from December 31, 1982 to September 30, 1984, and certain taxicabs were made eligible for the exemption for 1983 only (e.g., taxicabs prevented by local law from offering ridesharing). The 1984 Act extended the exemption through September 30, 1985.

[5] These exemptions for buses were adopted in the Energy Act of 1978 (Public Law 95-618) and extended in the 1982 Act. As noted earlier, the taxes on inner tubes and tread rubber are repealed effective January 1, 1984.

EXPENDITURES PURPOSES

Highway related programs

The statutory provisions governing expenditures from the Highway Trust Fund were revised in the 1982 Act to provide that amounts in the Trust Fund are to be available through September 30, 1988, as provided in appropriation acts, for meeting obligations incurred which are authorized by law to be paid out of the Trust Fund under the Highway Revenue Act of 1956, under Title I or II of the Surface Transportation Assistance Act of 1982, or thereafter, amounts for a general purpose authorized under these Acts as of December 31, 1982. As a result, the Trust Fund expenditure purposes are quite broad and include funding for:

—Federal-aid highways, including the interstate system, primary and secondary systems, urban systems, forest and public lands highways, scenic highways, overseas highways, etc.;
—Interstate resurfacing and repair;
—Bridge replacement;
—Highway safety research and development;
—Highway-related safety grants;
—Traffic control demonstration grants;
—Traffic control signal demonstration projects;
—Intermodal urban demonstration projects and mass transit grants;
—Carpools and vanpools grants;
—National Highway Traffic Safety Administration for a share of traffic safety programs; and
—Certain administrative costs of FHWA and NHTSA.

Mass Transit Account

The 1982 Act established a new Mass Transit Account within the Highway Trust Fund, consisting of the revenue equivalent to 1 cent per gallon of the tax on fuels and interest earnings on amounts in the account. Amounts are available through September 30, 1988, as provided in appropriation acts, for making capital expenditures under section 21(a)(2) of the Urban Mass Transportation Act of 1964 (including new projects).

Transfers to the Land and Water Conservation Fund and Boating Safety Account of the Aquatic Resources Trust Fund

Revenues equivalent to the 9 cents per gallon tax on fuels used in motorboats are transferred to these two funds through fiscal year 1988: up to $45 million per year is to be transferred to the Boating Safety Account so long as the fund balance does not exceed $45 million, with the balance (not to exceed $1 million per fiscal year) to the Land and Water Conservation Fund. (See separate discussion of these funds in sections 4 and 7 following.)

MISCELLANEOUS

The Secretary of the Treasury is required to report to the Congress each year on the financial condition of the Trust Fund. In addition, the Deficit Reduction Act of 1984 directs the Secretary of Transportation, in consultation with the Secretary of the Treasury, to conduct studies of the highway use tax and to report to the Congress by October 1, 1987. The studies relate to (1) whether vehicles of 80,000 pounds or more bear their fair share of the costs of the highway system, (2) the significance of the use tax for trans-border trucking operations, and (3) the feasibility of weight-distance truck taxes. The 1984 Act directs the Secretary of the Treasury to conduct a study of the effectiveness of the partial tax exemption for fuels used in qualified taxicabs and to report to the Congress with recommendations by January 2, 1985. In addition, the 1984 Act requires the Secretary of Transportation to report to the Congress by May 2, 1985, on the appropriate application and level of the excise tax on piggyback trailers.

The Committee on Public Works and Transportation has jurisdiction over the highway and mass transit spending programs.

The statutory provisions establishing the Trust Fund and governing its operations are located at section 9503 of the Internal Revenue Code.

FINANCIAL STATUS OF TRUST FUND

The following tables are based on the Budget of the U.S. Government for Fiscal Year 1986.

Table 2 shows the current status of the Fund. Table 3 indicates the status of the new Mass Transit Account.

TABLE 2.—STATUS OF HIGHWAY TRUST FUND

[In thousands of dollars]

	1984 actual	1985 estimate	1986 estimate
Unexpended balance brought forward:			
U.S. securities (par)	9,480,773	10,840,227	13,009,046
Cash	99,904	981,315	
Balance of fund at start of year	9,580,677	11,821,542	13,009,046
Cash income during the year: Governmental receipts:			
From excise taxes:			
Gasoline tax	8,979,114	9,283,000	9,473,000
Truck, bus and trailer taxes	864,823	1,249,000	1,242,000
Tire, innertube, and tread rubber taxes	331,600	201,000	218,000
Diesel fuel taxes	1,630,228	2,293,000	2,567,000
Lubricating oil taxes	−3,786		
Use tax on certain vehicles	179,665	427,000	355,000
Truck parts and accessories tax	−28,359		
Transfers to boat safety	−12,500		
Transfers to land and water conservation fund	−56,241	−1,000	−1,000
Transfers to aquatic resources fund		−71,000	−71,000
Refund of taxes	−141,920	−63,000	−162,000
Intrabudgetary transactions:			
Interest on investments	1,115,675	1,270,800	1,414,700
Total annual income	12,858,299	14,588,800	15,035,700
(Mass transit account)	(1,325,186)	(1,410,200)	(1,531,500)
Cash outlays during the year:			
Federal Highway Administration appropriations:			
Federal-aid highways (liquidation of contract authorization)	10,226,764	12,791,000	13,457,000
Highway-related safety grants (liquidation of contract authorization)	12,169	10,530	11,544
Highway-related safety grants (liquidation of contract authorization) (transfer to NHTSA)			−11,544
Trust fund share of other highway programs: Appropriation	10,259	12,301	13,549
Highway safety research and development	8,422	9,214	6,785
Highway safety research and development (transfer to NHTSA)			−4,003

TABLE 2.—STATUS OF HIGHWAY TRUST FUND—Continued

[In thousands of dollars]

	1984 actual	1985 estimate	1986 estimate
Miscellaneous highway trust funds	1,433	3,848	3,126
Motor carrier safety grants	1,671	18,842	14,000
Motor carrier safety grants (transfer to NHTSA)			−14,000
Right-of-way revolving fund (liquidation of contract authorization)	−17,803		
Intermodal urban demonstration program	114	950	1,180
National Highway Traffic Safety Administration appropriations:			
Trust fund share of operations and research	22,647	24,970	23,413
Rescission		−246	−162
Trust fund share of operations and research (transfer from FHWA)			4,003
Highway traffic safety grants (liquidation of contract authorization) (transfer from FHWA)			11,544
Motor carrier safety grants (transfer from FHWA)			14,000
Urban Mass Transportation Administration: Liquidation of contract authorization	233,196	359,188	667,124
Other agencies:			
Highland Scenic Highway, USDA		32	
Cumberland Gap, NPS	1,166	43,267	211
Total annual outlays	10,617,434	13,401,296	14,353,018
Unexpended balance carried forward:			
U.S. securities (par)	10,840,227	13,009,046	13,691,728
Cash	981,315		
Balance of fund at end of year	11,821,542	13,009,046	13,691,728
Commitment against unexpended balances:			
Appropriated but not expended:			
Appropriations	−101,985	−75,480	−61,333
Liquidation of contract authorization	−1,630,340	−1,722,222	−2,200,306

TABLE 2.—STATUS OF HIGHWAY TRUST FUND—Continued

[In thousands of dollars]

	1984 actual	1985 estimate	1986 estimate
Committed to future liquidating cash appropriations:			
Outstanding obligated balance of contract authority	−19,986,234	−22,272,487	−23,056,590
Unobligated balance of contract authority	−6,845,028	−7,303,698	−8,203,691
Total commitment against unexpended balances	−28,563,587	−31,373,887	−33,521,920
Uncommitted balance, end of year	−16,742,045	−18,364,841	−19,830,192

Source: Appendix to the U.S. Budget for fiscal year 1986.

TABLE 3.—STATUS OF MASS TRANSIT ACCOUNT IN THE HIGHWAY TRUST FUND

[In thousands of dollars]

	1984 actual	1985 estimate	1986 estimate
Unexpended balance brought forward, start of year:	519,000	1,610,900	2,551,900
Cash income during the year, Governmental receipts:			
Motor fuel taxes	1,236,000	1,127,000	1,151,900
Interest on investments	89,100	173,200	277,500
Total annual income	1,325,100	1,300,200	1,429,400
Cash outgo during the year (liquidation of contract authorization):			
Discretionary Grants	233,200	359,200	612,124
Formula Grants			55,000
Subtotal	233,200	359,200	667,124
Unexpended balance carried forward, end of year	1,610,900	2,551,900	3,314,176

Source: Appendix to the U.S. Budget for fiscal year 1986.

Section 4. Aquatic Resources Trust Fund ("Wallop-Breaux" Fund)

LEGISLATIVE HISTORY

Current Law

The Deficit Reduction Act of 1984 (Public Law 98-369) established a new trust fund, the Aquatic Resources Trust Fund (known as the Wallop-Breaux Fund), by combining and expanding the prior fish restoration and management projects ("Dingell-Johnson" Fund) and the prior National Recreation Boating Safety and Facilities Improvement Fund ("Biaggi" Fund) into a single Trust Fund. The Trust Fund consists of two accounts, the Sport Fish Restoration Account and the Boating Safety Account.

Prior Law

Fish restoration

The Act of August 9, 1950 (commonly referred to as the Dingell-Johnson Act), provided for cooperation between the Federal Government and State fish and game departments. Although the Act did not establish a trust fund, appropriations were linked to specific tax revenues. Limits were placed on State expenditures of federally-appropriated funds until the State had passed laws governing the conservation of fish and the State met other requirements.

Boating safety

1980 Act.—The National Recreational Boating Safety and Facilities Improvement Fund was enacted on October 14, 1980 (Public Law 96-451). Before this time, all funds attributable to the excise taxes on motorboat use of gasoline and other motor fuels were transferred periodically from the Highway Trust Fund into the Land and Water Conservation Fund. The 1980 Act provided financing for the Boating Fund for fiscal years 1981 through 1983.

1982 Act.—The Highway Revenue Act of 1982 (title V of the Surface Transportation Assistance Act of 1982; Public Law 97-424) extended the Boating Fund through fiscal year 1988, and increased the amounts to be transferred into the Fund.

FINANCING MECHANISM

Amounts equivalent to the following revenues are appropriated into the Aquatic Resources Trust Fund:

(1) Revenues from the excise tax on sport fishing equipment, electric outboard motors and sonar devices suitable for finding fish under Internal Revenue Code section 4161;

(2) Revenues from the 9-cents-per-gallon excise tax on gasoline and special motor fuels in motorboats (other than $1 million of those revenues which will continue to be transferred to

the Land and Water Conservation Fund) and received before October 1, 1988; and

(3) Import duties imposed on fishing equipment and on yachts and pleasure craft.

The revenues from the motorboat fuels excise tax described above is allocated first to the Land and Water Conservation Fund (up to $1 million annually) and second to the Boating Safety Account (up to a maximum of $45 million for each fiscal year through 1988). In addition, the maximum amount permitted to be held by the account at any time cannot exceed $45 million.

All the remaining revenues described above are allocated to the Sport Fish Restoration Account.

EXPENDITURE PURPOSES

Sport Fish Restoration Account

Moneys in the account may be expended, subject to appropriation acts,[1] for the purpose of restoring and managing all species of fish that have material value in connection with sport or recreation in the marine and/or fresh waters of the United States, including:

(1) Such research into problems of fish management and culture as may be necessary for efficient administration of fish resources;

(2) Acquisition of such information as necessary to guide and direct the regulation of fishing by law, including the extent of the fish population, the drain on the fish supply from fishing and/or natural causes, the necessity of legal regulation of fishing, and the effects of any measures of regulation that are applied;

(3) Formulation and adoption of plans for restocking waters with food and game fish according to natural areas or districts to which such plans are applicable, together with the acquisition of such facts as are necessary to the formulation, execution, and testing of such plans;

(4) Selection and improvement of areas of water or land adaptable as hatching, feeding, or breeding places for fish, including acquisition by purchase, condemnation, lease, or gift of such areas as are suitable therefore, and the construction thereon of such improvements, as may be necessary to make them available for these purposes;

(5) Aquisition, development, renovation, or improvement of facilities (and auxiliary facilities necessary to ensure safe use of such facilities) that create, or add to, public access to the waters of the United States for boating purposes;

(6) Aquatic resources education programs for increasing public understanding of the Nation's water resources and associated aquatic life forms; and

---

[1] The permanent appropriations provision under the Act of August 31, 1951, is retained by the 1984 Act and governs expenditures from the Sport Fish Restoration Account, as successor to the sport fish restoration program of prior law.

(7) Subject to a percentage limitation contained in the 1984 Act, for administration of the sport fish restoration program by the Secretary of the Interior.

Moneys in the Account remain available until spent.

Boating Safety Account

Moneys in the Boating Safety Account may be expended, subject to appropriation Acts, as follows:

(1) Two-thirds of the amount allocated to the Account in any fiscal year for State boating safety programs (i.e., up to $30 million); and

(2) One-third of the amount allocated to the Account in any fiscal year for the operating expenses account of the Coast Guard (including the Coast Guard Auxiliary) to defray the cost of services provided by it for recreational boating safety (i.e., up to $15 million).

The State boating safety programs purposes eligible for funding from the account are:

(1) Providing facilities, equipment, and supplies for boating safety education and law enforcement, including purchase, operation, maintenance, and repair;

(2) Training personnel in skills related to boating safety and to the enforcement of boating safety laws and regulations;

(3) Providing public boating safety education, including education programs and lectures, to the boating community and the public school system;

(4) Acquiring, constructing, or repairing public access sites used primarily by recreational boaters;

(5) Conducting boating safety inspections and accident investigations;

(6) establishing and maintaining facilities for emergency or search-and-rescue assistance; and

(7) Establishing and maintaining waterway markers and other apporpriate aids to navigation.

Moneys in the Account will be available, subject to appropriations Acts, for expenditure by the Secretary of Transportation pursuant to that Secretary's contract authority, and will remain available until spent.

MISCELLANEOUS

Statutory language relating to sport fish restoration is located at 16 U.S.C. 777 and following. Statutory language relating to boat safety is located at 46 U.S.C. 2102 and 13101 and following. The Aquatic Resources Trust Fund is established at section 9504 of the Internal Revenue Code.

Jurisdiction over expenditures from the Aquatic Resources Trust Fund is in the Committee on Merchant Marine and Fisheries.

Section 5. Superfunds

(A) Hazardous Substance Response Trust Fund

LEGISLATIVE HISTORY

The Hazardous Substance Response Trust Fund was enacted in Title II, Subtitle B, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 on December 11, 1980 (Public Law 96–510).

FINANCING MECHANISM

The 1980 Act appropriates, out of any money in the Treasury not otherwise appropriated, to the Response Trust Fund amounts determined by the Secretary of the Treasury to be equivalent to the excise taxes received in the Treasury under Internal Revenue Code sections 4611 and 4661, the amounts recovered on behalf of the Response Trust Fund under the Act, all moneys recovered or collected under section 311(b)(6)(B) of the Clean Water Act, penalties assessed under Title I of the 1980 Act, and punitive damages under section 107(c)(8) of the 1980 Act.

Internal Revenue Code section 4611 imposes a tax of 0.79 cent a barrel on crude oil used in, exported from, or imported into the United States. The tax does not apply to any use of crude oil for extracting oil or natural gas on the premises where the crude oil was produced. Internal Revenue Code section 4661 imposes a tax on any taxable chemical sold by a manufacturer, producer, or importer. The tax rate is determined in accordance with Table 1:

TABLE 1.—TAX RATES ON CHEMICALS

Chemical	Tax per ton
Acetylene	$4.87
Benzene	4.87
Butane	4.87
Butylene	4.87
Butadiene	4.87
Ethylene	4.87
Methane	3.44
Naphthalene	4.87
Propylene	4.87
Toluene	4.87
Xylene	4.87
Ammonia	2.64
Antimony	4.45
Antimony trioxide	3.75

TABLE 1.—TAX RATES ON CHEMICALS—Continued

Chemical	Tax per ton
Arsenic	4.45
Arsenic trioxide	3.41
Barium sulfide	2.30
Bromine	4.45
Cadmium	4.45
Chlorine	2.70
Chromium	4.45
Chromite	1.52
Potassium dichromate	1.69
Sodium dichromate	1.87
Cobalt	4.45
Cupric sulfate	1.87
Cupric oxide	3.59
Cuprous oxide	3.97
Hydrochloric acid	.29
Hydrogen fluoride	4.23
Lead oxide	4.14
Mercury	4.45
Nickel	4.45
Phosphorus	4.45
Stannous chloride	2.85
Stannic chloride	2.12
Zinc chloride	2.22
Zinc sulfate	1.90
Potassium hydroxide	.22
Sodium hydroxide	.28
Sulfuric acid	.26
Nitric acid	.24

These taxes apply from April 1, 1981, through September 30, 1985. However, if on September 30, 1983, or September 30, 1984, the unobligated balance in the Hazardous Substance Response Trust Fund as of that date exceeds $900 million (it did not) and the Secretary of the Treasury (after consultation with the Administrator of the Environmental Protection Agency) determines that the unobligated balance will exceed $500 million on September 30 of the following year if no more excise taxes are collected under Internal Revenue Code section 4611 or 4661 during the following calendar year, then no tax shall be imposed during the following year. Further, the authority to collect these taxes will terminate when cumulative receipts reach $1.38 billion.

The Act authorizes to be appropriated to the Response Trust Fund, $44 million in each fiscal year from 1981 through 1985. The Act also authorizes an appropriation in 1985 of an amount equal to so much of the aggregate amount authorized and not appropriated in the earlier fiscal years.

The Act provides for the transfer to the Response Trust Fund of one-half of the unobligated balance remaining on December 10, 1980, under the Fund in section 311 of the Clean Water Act and the amounts appropriated under section 504(b) of the Clean Water Act during any fiscal year.

The Act also authorizes to be appropriated to the Response Trust Fund, as repayable advances, such sums as may be necessary to carry out the purposes of the Fund. Advances are not to exceed amounts which the Secretary of the Treasury estimates will be received by the Fund in the following 12 months. No advance is to be made after September 30, 1985, and all previous advances are to be repaid before that time.

Expenditure Purposes

The Act establishes a comprehensive system of notification, emergency response, enforcement, and liability for hazardous substance spills and uncontrolled hazardous waste dumpsites. The program is designed to provide a broad based cleanup effort.

Amounts in the Response Trust Fund are available in connection with releases or threats of releases of hazardous substances into the environment only for purposes of making expenditures which are described in the Act as in effect on December 11, 1980, including response costs; claims asserted and compensable but unsatisfied under section 311 of the Clean Water Act; claims for injury to, or destruction or loss of, natural resources; and related costs described in the Act.

At least 85 percent of the amounts appropriated to the Response Trust Fund equivalent to the taxes under Internal Revenue Code section 4611 or 4661 (and through the additional authorized amounts for each fiscal year) are to be reserved for payment of governmental response costs pursuant to the Act, including costs incurred pursuant to the Intervention on the High Seas Act, payment of any claim for necessary response costs incurred by any other person as a result of carrying out the national contingency plan established under the Clean Water Act as amended by the 1980 Act and approved under the plan and certified by the responsible Federal official, payment of costs specified under Act section 111(c), and for the repayment of certain advances made under the Act.

Miscellaneous

The statutory language establishing the Hazardous Substance Response Trust Fund and governing its operation are located at 42 U.S.C. 9631 et seq.

FINANCIAL STATUS OF FUND

TABLE 2.—HAZARDOUS SUBSTANCE RESPONSE TRUST FUND—AMOUNTS AVAILABLE FOR APPROPRIATION

[In thousands of dollars]

	1984 actual	1985 estimate	1986 estimate
Unappropriated balance, start of year	350,609	277,233	69,233
Receipts:			
Interest	77,949	67,000	99,000
Fines and recoveries	3,440	29,000	33,000
Transfers from the general fund, amounts equivalent to taxes	261,235	272,000	874,000
Appropriations from the general fund	44,000	44,000	
Total available for appropriation	737,233	689,233	1,075,233
Appropriation	−460,000	−620,000	−900,000
Unappropriated balance, end of year	277,233	69,233	175,233

Source: Appendix of the U.S. Budget for fiscal year 1986.

(B) Post-closure Liability Trust Fund

LEGISLATIVE HISTORY

The Post-closure Liability Trust Fund was enacted in Title II, Subtitle C, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 on December 11, 1980 (Public Law 96-510).

FINANCING MECHANISM

The Fund consists of "such amounts as may be appropriated, credited, or transferred to" the Trust Fund.

The Comprehensive Environmental Response, Compensation, and Liability Act imposed an excise tax on the receipt of hazardous waste at a qualified hazardous waste disposal facility. Under Internal Revenue Code section 4681, the tax imposed on the owner or operator of the qualified hazardous waste disposal facility is $2.13 per dry weight ton of hazardous waste. The tax applies to the receipt of hazardous waste after September 30, 1983, except that if, as of September 30 of any subsequent calendar year, the unobligated balance of the Post-closure Liability Trust Fund exceeds $200 million, no tax shall be imposed under section 4681 during the following year.

EXPENDITURE PURPOSES

Amounts in the Post-closure Liability Trust Fund are to be available only for the purposes described in the 1980 Act as in effect on December 11, 1980. Under the Act, the liability of the owner or operator of a hazardous waste disposal facility which has received a permit under subtitle C of the Solid Waste Disposal Act shall be transferred to the Fund when (1) the owner and operator of the facility has complied with the requirements under subtitle C of the Solid Waste Disposal Act and regulations thereunder which may affect the performance of such facility after closure, and (2) the facility has been closed in accordance with the regulations and the conditions of the permit, and the facility has been monitored as required by the regulations and permit for a period not to exceed 5 years after closure to demonstrate that there is no substantial likelihood that any migration offsite or release from confinement of any hazardous substance or other risk to public health or welfare will occur. The transfer of liability is to be effective 90 days after the owner or operator of the facility notifies the Administrator of the Environmental Protection Agency (and the State if it has an authorized program) that the required conditions have been satisfied. If all the requirements are not met or if insufficient information has been provided, the Administrator or State representative notifies the owner and operator who continues to be liable until the Administrator and State determine that the facility has complied with the liability transfer requirements under this Act. The Fund also may be used to pay the cost of monitoring and care and maintenance of a site incurred by other persons after the period of monitoring required by regulations under subtitle C of the Solid Waste Disposal Act for hazardous waste disposal facilities meeting the transfer conditions described above.

The Act also provides that the President is to use the money in the Post-closure Liability Fund for the following purposes (with respect to a hazardous waste disposal facility for which liability has been transferred to the Fund under the Act):

(1) payment of certain governmental response costs, including costs incurred pursuant to the Intervention on the High Seas Act;

(2) payment of any claim for necessary response costs incurred by any other person as a result of carrying out the national contingency plan established under the Clean Water Act and amended by the 1980 Act provided, however, that such costs must be approved under the plan and certified by the responsible Federal official;

(3) payment of any claim authorized under Act section 111(b) and finally decided pursuant to Act section 112 (claims procedure); and

(4) payment of costs specified under Act section 111(c) (list of types of costs covered).

MISCELLANEOUS

The statutory provisions establishing the Post-closure Liability Trust Fund and governing its operation are located at 42 U.S.C. 9641.

FINANCIAL STATUS OF FUND

TABLE 3.—POST-CLOSURE LIABILITY TRUST FUND—AMOUNTS AVAILABLE FOR APPROPRIATIONS

[In thousands of dollars]

	1984 actual	1985 estimate	1986 estimate
Unappropriated balance, start of year	....	9,618	17,618
Receipts:			
Interest and profits on investments	303	1,000	1,500
Transfer from the general fund, amounts equivalent to taxes	9,315	7,000	....
Total, available for appropriation	9,618	17,618	19,118
Appropriation: Post-closure liability trust fund	....	....	....
Unappropriated balance, end of year	9,618	17,618	19,118

Source: U.S. Budget Appendix, Fiscal Year 1986.

No appropriation request is being made for this Trust Fund in 1986. There will not be any hazardous waste sites eligible for liability coverage under the Fund for several years.

Section 6. Inland Waterways Trust Fund

LEGISLATIVE HISTORY

The Inland Waterways Trust Fund was established in Title II of Public Law 95-502, the Inland Waterways Revenue Act of 1978, enacted on October 21, 1978. The purpose of the Act is to provide funding for making construction and rehabilitation expenditures for navigation on specified inland and intracoastal waterways.

FINANCING MECHANISM

The 1978 Act imposed an excise tax (section 4042 of the Internal Revenue Code) effective October 1, 1980, on fuel used by vessels in commercial waterway transportation on those 26 inland and intracoastal waterways specified in section 206 of the Act. These waterways include the Mississippi River upstream from Baton Rouge, the Mississippi's tributaries, and the Gulf and Atlantic Intracoastal Waterways.

The tax rate was established at 4 cents per gallon for October 1, 1980, through September 30, 1981, with scheduled increases of 2 cents per gallon on October 1, 1981 (to 6 cents), October 1, 1983 (to 8 cents), and October 1, 1985 (to 10 cents). The tax does not apply to deep-draft ocean-going vessels, passenger or fishing vessels, or certain barges. The revenues from this tax are deposited into the Trust Fund.

EXPENDITURE PURPOSES

Amounts in the Trust Fund are available as provided in appropriations acts, for construction and rehabilitation expenditures for navigation on the specified inland and intracoastal waterways.

MISCELLANEOUS

The 1978 Act required an extensive study of inland waterways user taxes and charges by the Secretary of Transportation and the Secretary of Commerce, in consultation with a number of other agencies. Section 205 of the Act specified the issues to be considered in the study. These issues included: the extent to which the Federal Government should seek to recover its expenditures from users; the various forms of taxes or charges, methods for collecting, and coverage of users and waterways; the economic effects on carriers and users, regions, businesses, competitors, prices and so forth; the proper measurement of benefits to be assigned to users; the effects on development of the waterways. This study, which was to be submitted to Congress no later than September 30, 1981, along with the findings and recommendations of the Secretary of Transportation and various other agencies, was received in February 1982.

The Secretary of the Treasury is also required to submit an annual report to the Congress on the financial condition of the Trust Fund, beginning September 30, 1981. This annual report has not been received by the Congress.

The House Committee on Public Works and Transportation has jurisdiction over inland waterway authorizations.

The statutory provisions establishing the Inland Waterways Trust Fund and governing its operations are located at 33 U.S.C. 1801.

FINANCIAL STATUS OF THE TRUST FUND

The table below describes amounts in the Trust Fund that are available for appropriation.

AMOUNTS AVAILABLE FOR APPROPRIATION

[In thousands of dollars]

	1984 actual	1985 estimate	1986 estimate
Unappropriated balance, start of year	91,517	133,147	192,147
Receipts:			
Inland waterway fuel tax	38,530	40,000	51,000
Interest and profits on investments	3,100	19,000	25,000
User fees (proposed legislation) [1]			196,000
Total available for appropriation	133,147	192,147	464,147
Appropriation (proposed legislation) [1]			196,000
Unappropriated balance, end of year	133,147	192,147	268,147

[1] In its 1986 Budget, the Administration states that legislation is being proposed that would provide and permanently appropriate additional receipts based on waterway user fees.

Source: Appendix of the U.S. Budget for fiscal year 1986.

Note.—There have been no appropriations from the Trust Fund.

Section 7. Land and Water Conservation Fund

LEGISLATIVE HISTORY

On September 3, 1964, the Congress enacted Public Law 88-578, which established the Land and Water Conservation Fund as a separate account in the Treasury, effective January 1, 1965. Minor amendments were made to the Fund in 1965 (Public Law 89-72).

In 1968, Public Law 90-401 eliminated the system of user fees for all Federal recreation areas that had been included previously in the law. The repeal was effective December 31, 1971.[1] The 1968 Act also added authorization for additional appropriations of such amounts as were necessary to make the income of the Fund not less than $200 million for each of the five fiscal years beginning July 1, 1968, and ending June 30, 1973. To the extent that appropriated sums were insufficient to reach the required amounts, an amount sufficient to cover the remainder was to be credited to the Fund from revenues due and payable to the United States for deposit in the Treasury as miscellaneous receipts under the Outer Continental Shelf Lands Act.

In 1970, Public Law 91-485 increased the authorized appropriations to not less than $300 million for fiscal years 1971 through June 30, 1989. As a result of amendments in 1976 and 1977, the amount for fiscal year 1978 was increased to $900 million (Public Law 94-422, Public Law 94-273 and Public Law 95-42).

In 1981, Public Law 96-451 provided for the transfer from the Land and Water Conservation Fund of an amount not to exceed $20 million per year for fiscal years 1981-1983 of revenues from motorboat fuel taxes to the National Recreational Boating Safety and Facilities Improvement Fund. The Highway Revenue Act of 1982 (Title V of the Surface Transportation Assistance Act of 1982, Public Law 97-424) increased this limitation on transfers of motorboat fuels taxes to the Boating Fund to $45 million through September 30, 1988. In 1981, Public Law 96-514 provided that revenues from recreation fee collections should be deposited into the Land and Water Conservation Fund.

The Deficit Reduction Act of 1984 (Public Law 98-369) reduced the amount attributable to the excise taxes on gasoline and special fuels used in motorboats which is transferred to the Land and Water Conservation Fund. Under the Act, an amount not to exceed $1 million per fiscal year of the revenue attributable to these motorboat fuels excise taxes will continue to be transferred to the Fund. (See section 4 for changes in the Boating Fund.)

---

[1] A limited system of fees was later reinstated, and for several years these revenues generally were to be covered into a special account in the Treasury to be administered in conjunction with, but separately from, the Land and Water Conservation Fund.

FINANCING MECHANISM

Internal Revenue Code section 9503 provides that up to $1 million per year of amounts equivalent to motorboat fuel taxes will be transferred from the Highway Trust Fund to the Land and Water Conservation Fund.

As provided by 16 U.S.C. 460*l*–5, the following amounts will be deposited in the Land and Water Conservation Fund:

(1) All proceeds (except that committed under 40 U.S.C. 485 (b) to (e) or the Independent Offices Appropriation Act or in any later appropriation act) received from any disposal of surplus real property and related personal property under the Federal Property and Administrative Services Act of 1949 (as amended), notwithstanding any provision of law that such proceeds shall be credited to miscellaneous receipts of the Treasury;

(2) The motorboat fuel tax revenues described above and certain related revenues received before July 1, 1978;

(3) In addition, there are authorized to be appropriated annually to the Fund such amounts as necessary to make the income of the Fund not less than $300 million for fiscal year 1977, and $900 million for fiscal year 1978 and for each fiscal year thereafter through September 30, 1989; and

(4) To the extent that the appropriated sums are not sufficient to make the total annual income of the Fund equivalent to the amounts enumerated above, an amount sufficient to cover the remainder shall be credited to the Fund from revenues due and payable as miscellaneous receipts under the Outer Continental Shelf Lands Act (43 U.S.C. 1331 *et seq.*).

Moneys covered into the Fund under (4) above remain in the Fund until appropriated by the Congress.

16 U.S.C. 460*l*–5a provides that revenues from recreation fee collections by Federal agencies shall be paid into the Land and Water Conservation Fund, to be available for appropriation for any or all purposes authorized by the Land and Water Conservation Fund.

EXPENDITURE PURPOSES

16 U.S.C. 460*l*–4 provides that the land and water conservation provisions of section 460 are "to assist in preserving, developing, and assuring accessibility to all citizens of the United States of America of present and future generations and visitors who are lawfully present within the boundaries of the United States of America such quality and quantity of outdoor recreation resources as may be available and are necessary and desirable for individual active participation in such recreation and to strengthen the health and vitality of the citizens of the United States by (1) providing funds for and authorizing Federal assistance to the States in planning, acquisition, and development of needed land and water areas and facilities and (2) providing funds for the Federal acquisition and development of certain lands and other areas."

Moneys in the Fund are available for expenditures as provided in appropriation acts. Not less than 40 percent of annual appropriations are to be used for Federal purposes; these include activities and programs of the Bureau of Land Management, the Forest Service, the Fish and Wildlife Service and the National Park Service. The remainder of funds appropriated are for State purposes, and these funds are apportioned among the States on the basis of statutory formula and criteria.

MISCELLANEOUS

Jurisdiction over all the land and water conservation programs is within the Committee on Interior and Insular Affairs.

No annual report is required on the Fund's financial condition or operations.

The statutory provisions establishing the Land and Water Conservation Fund and governing its operation are located at 16 U.S.C. 460(l).

FINANCIAL STATUS OF FUND

The following table contains data on the Fund's receipts for fiscal years 1984 (actual), 1985, and 1986, as well as the Fund's balance at the end of the fiscal years.

TABLE 1.—AMOUNTS AVAILABLE FOR APPROPRIATION

[In thousands of dollars]

	1984 actual	1985 estimate	1986 estimate
Regular account: Unappropriated balance, start of year	2,402,547	3,006,634	3,649,902
Offsetting receipts: Land and Water Conservation Fund Act:			
Recreation fees	33,890	30,730	32,153
Proposed legislation ¹			−32,153
Surplus property sales	252	205,952	182,184
Motorboat fuels tax	56,241	1,000	1,000
Outer Continental Shelf receipts	809,617	662,318	684,663
Proposed legislation			32,153
Total available for appropriation	3,302,547	3,906,634	4,549,902
Appropriation:			
Bureau of Land Management, land acquisition	−1,391	−2,695	
Fish and Wildlife Service, land acquisition	−52,297	−63,218	−1,500
National Park Service, land acquisition	−203,650	−147,216	−11,275
Forest Service (Department of Agriculture), land acquisition	−38,575	−43,603	−2,278
Total appropriations	−295,913	−256,732	−15,053
Unappropriated balance, end of year	3,006,634	3,649,902	4,534,849

TABLE 1.—AMOUNTS AVAILABLE FOR APPROPRIATION—Continued

[In thousands of dollars]

	1984 actual	1985 estimate	1986 estimate
Special account (Public Law 95-42, section 1):			
Unappropriated balance, start of year	142,621	142,621	142,621
Total available for appropriation	142,621	142,621	142,621
Appropriation			
Unappropriated balance, end of year	142,621	142,621	142,621

[1] The 1986 Budget states that proposed legislation would eliminate the earmarking of receipts from recreation fees to the Land and Water Conservation Fund.

Source: Appendix of the U.S. Budget for Fiscal Year 1986.

Section 8. Wildlife Restoration Projects ("Pittman-Robertson" Fund)

LEGISLATIVE HISTORY

The Act of September 2, 1937, provided for cooperation between the Federal Government and the States regarding wildlife restoration projects. The 1939 Reorganization Plan No. II, section 4(f), transferred the functions of the Secretary of Agriculture relating to the conservation of wildlife game and migratory birds to the Secretary of the Interior.

The 1937 Act provided that amounts equivalent to excise taxes on sporting arms and ammunition would be deposited into the Federal Aid to Wildlife Restoration Fund.

The Federal Aid in Wildlife Restoration Act Amendments of 1970 (Title I of Public Law 91-503), added provisions for the deposit of the amounts equivalent to excise taxes on pistols and revolvers into the Fund beginning in fiscal year 1971. Public Law 92-558 added provisions for the deposit of amounts equivalent to the excise taxes on bows and arrows and their parts and accessories into the Fund beginning with fiscal year 1975.

FINANCING MECHANISM

To carry out wildlife restoration projects, there is authorized to be appropriated an amount equal to all revenues accruing from any tax imposed by Internal Revenue Code section 4161(b) on bows, arrows, and parts and accessories and section 4181 on pistols, revolvers, other firearms, shells, and cartridges. Section 4161 imposes an excise tax of 11 percent of the price for which bows with a draw weight of 10 pounds or more; arrows that measure 18 inches overall or more in length or arrows that measure less than 18 inches in overall length which are suitable for use with a taxable bow; and parts, accessories, or quivers suitable for use with taxable bows are sold by a manufacturer, producer, or importer. Section 4181 imposes a similar tax of 10 percent upon the sale of pistols and revolvers and 11 percent on other firearms, shells, and cartridges. Section 4182 provides exemptions for certain machine guns and short barrelled firearms (on which a transfer tax has been paid under section 5811) and sales to the Defense Department.

EXPENDITURE PURPOSES

Any State which wishes to receive any of these appropriations must assent to the provisions of Chapter 5B of U.S. Code Title 16 and enact laws for the conservation of wildlife including a prohibition against the diversion of license fees paid by hunters for any purpose other than the administration of the State fish and game department. The Secretary of the Interior and the State fish and game department must agree upon the wildlife restoration projects to be aided in the State. The project must conform to the standards fixed by the Secretary of the Interior.

A wildlife restoration project is defined to include the selection, restoration, rehabilitation, and improvement of areas of land or water adaptable as feeding, resting, or breeding places for wildlife, including acquisition by purchase, condemnation, lease or gift of such areas or estates or interests therein as are suitable or capable of being made suitable therefor, and the construction thereon or therein of such works as may be necessary to make them available for such purposes. The term includes also such research into problems of wildlife management as may be necessary to efficient administration affecting wildlife resources.

The authorized revenues are made available until expended. Amounts not spent by a State within two fiscal years are made available for expenditure by the Secretary of the Interior to carry out the provisions of the Migratory Bird Conservation Act (16 U.S.C. 715).

Up to 8 percent of the available funds are required to be apportioned as the Secretary of the Interior estimates necessary to administer the Migratory Bird Conservation Act. The remainder of the revenue (except as provided in the following paragraph) is apportioned among the States in the following manner: one-half in the ratio which the area of each State bears to the total area of all the States, and one-half in the ratio which the number of paid hunting-license holders of each State (2 years earlier) bears to the total number of paid license holders of all the States. No State is to receive less than one-half of 1 percent or more than 5 percent of the total amount apportioned.

One-half of the revenues from the tax imposed on pistols, revolvers, bows, and arrows is to be apportioned among the States in proportion to the ratio that the population of each State bears to the population of all the States. Each State is to be apportioned between 1 and 3 percent of the revenue under this population apportionment.

Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, and the Virgin Islands can also be appropriated limited amounts of these revenues.

MISCELLANEOUS

Statutory language providing the permanent authorization and related matters is located at 16 U.S.C. 669 and following.

The Committee on Merchant Marine and Fisheries has jurisdiction over expenditures for wildlife restoration projects.

Section 9. Reforestation Trust Fund

LEGISLATIVE HISTORY

In 1980, the Congress enacted Title III of Public Law 96-451 which provided for the amortization of certain reforestation expenses and established the Reforestation Trust Fund.

In 1982, provisions were enacted as part of the Surface Transportation Assistance Act of 1982 (H.R. 6211, P.L. 97-424) directing the Secretary of Agriculture to expend all amounts in the Trust Fund during fiscal years 1983, 1984, and 1985, and directing that the Secretary spend not less than $104 million in fiscal year 1983. Amounts remaining in the Trust Fund as of October 1, 1985, are to be distributed to the States for use in State forestry programs no later than April 30, 1986.

FINANCING MECHANISM

Funds for the Reforestation Trust Fund are derived from import duties on plywood and lumber. The Secretary of the Treasury is required to transfer receipts from these tariffs to the Trust Fund in maximum amounts of $30 million for each fiscal year during the six-year period from October 1, 1979, through September 30, 1985. Under the 1982 amendments, amounts available in the Fund on October 1, 1985, are to be distributed to the States, as noted above.

EXPENDITURE PURPOSES

Funds are to be used to supplement congressional appropriations for reforestation and timber stock improvement on publicly owned national forests, in order to eliminate and prevent a backlog in reforestation of the National Forest system.

For each of the five fiscal years from fiscal year 1981 through fiscal year 1985, appropriations have been authorized from the Trust Fund to the Secretary of Agriculture to pay estimated necessary direct costs and properly allocable administrative costs for reforestation and related programs (under section 3(d)(2)) of the Forest Rangeland Resources Planning Act of 1974 (16 U.S.C. 1601(d)(2)), but only to the extent these estimated costs exceed amounts appropriated out of the general fund for these purposes.

MISCELLANEOUS

After consulting with the Secretary of Agriculture, the Secretary of the Treasury must submit annual reports to the Congress setting forth the financial condition and operating results of the Reforestation Trust Fund for the preceding fiscal year and the expected condition and results of the Trust Fund for the next year.

The statutory language establishing the Reforestation Trust Fund and governing its operations are located at 16 U.S.C. 1606(a).

FINANCIAL STATUS OF FUND

TABLE 1.—REFORESTATION TRUST FUND—PROGRAM AND FINANCING

[In thousands of dollars]

	1984 actual	1985 estimate	1986 estimate[1]
Program by activities:			
Direct program	81,711	77,515	
Reimbursable program	9		
Total obligations	81,720	77,515	
Financing:			
Offsetting collections from:			
Federal funds	−1		
Non-Federal sources	−8		
Unobligated balance, start of year	−92,803	−45,900	
Unobligated balance available, end of year	45,900		
Budget authority (appropriation) (permanent)	34,808	31,615	

[1] Since the authority for this trust fund expires October 1, 1985, comparable funding for reforestation has been added to the National Forest System account in the Budget for 1986.

Source: U.S. Budget Appendix, Fiscal Year 1986.

Section 10. Deep Seabed Revenue Sharing Trust Fund

LEGISLATIVE HISTORY

The Deep Seabed Revenue Sharing Trust Fund was established in 1979 by Title IX of the Deep Seabed Hard Mineral Resources Act (Public Law 96-223). The purpose of the Trust Fund is to accelerate the program of environmental assessment of exploration for and commercial recovery of hard mineral resources of the deep seabed and assure that such exploration and recovery activities are conducted in a manner which will encourage the conservation of such resources, protect the quality of the environment, and promote the safety of life and property at sea. An additional purpose is to encourage continued development of deep seabed mining technology.

FINANCING MECHANISM

The Deep Seabed Revenue Sharing Trust Fund is funded by amounts determined by the Secretary of the Treasury to be equivalent to the amount of the excise taxes received in the Treasury under the Deep Seabed Hard Mineral Removal Tax Act of 1979. The excise tax, imposed under Internal Revenue Code section 4495, is 3.75 percent of the "imputed value" of hard mineral resources removed from the deep seabed.[1] The tax became effective on January 1, 1980, and terminates after the earlier of the date on which an international deep seabed treaty takes effect with respect to the United States or on June 29, 1990.

A mining company can elect to have the application of the excise tax suspended with respect to one or more commercially recoverable metals or minerals contained in the nodules removed from the deep seabed if the mining company does not intend to process, use commercially, or sell that metal or mineral within one year after the date of extraction. If a mining company elects to suspend the tax on a mineral and later processes, uses, or sells that mineral, then the mining company is liable for the excise tax and interest on the deferred amount. The interest is to be paid into the Trust Fund and will be treated like other amounts in the Trust Fund. If the additional tax is paid after substantial disposition of Trust Fund assets by Congress, the additional tax is to be disposed of in a manner provided in the legislation making the substantial disposition or in subsequent acts.

---

[1] The "imputed value" is equal to 20 percent of the fair market value of the commercially recoverable metals and minerals in such resource. Thus, the effective tax rate is 0.75 percent of the fair market value of the resource.

EXPENDITURES PURPOSES

Appropriations have been authorized from the Trust Fund for making contributions which may be required pursuant to an international deep seabed treaty which may become effective with respect to the United States on or before June 28, 1990. Trust Fund amounts may be appropriated for making contributions required under such a treaty for the purpose of sharing the revenue from deep seabed mining among nations of the world.

In the event that an international deep seabed treaty does not become effective with respect to the United States on or before June 28, 1990, amounts in the Trust Fund will be available for such purposes as Congress may provide by law. Thus, if an international deep seabed treaty is not in effect with respect to the United States prior to June 29, 1990, amounts in the Trust Fund will be disposed of only in accordance with an act of Congress.

MISCELLANEOUS

The Secretary of the Treasury is required to submit an annual report to the Congress with respect to the Deep Seabed Revenue Sharing Trust Fund beginning with the fiscal year ending September 30, 1980.

The Statutory provisions establishing the Deep Seabed Revenue Sharing Trust Fund and governing its operation are located at 30 U.S.C. 1472.

FINANCIAL STATUS OF FUND

Since no treaty is yet in effect, there have been no appropriations from the Fund. No revenues are expected from the excise tax until the late 1980's. At that time it is estimated that the tax will raise a maximum of $5 million in annual net revenues (gross revenue less income tax lost because of deductibility of the tax).

Section 11. Tax Court Judges Survivors Annuity Fund

Legislative History

The Tax Court Judges Survivors Annuity Fund was enacted in Public Law 87-370 on October 4, 1961. Amendments which increase the annuity amounts payable from the Fund were enacted in Public Law 97-362 (H.R. 4717) on October 25, 1982. Amendments to increase the maximum annuities receivable by surviving children of a deceased Tax Court judge where the judge also leaves a surviving spouse were enacted in Public Law 98-369 (H.R. 4170) on July 18, 1984. Internal Revenue Code section 7448 provides the statutory basis for the annuities to surviving spouses and dependent children of Tax Court judges.

Financing Mechanism

Any judge of the United States Tax Court may by written election while a judge (or before a successor takes office) participate in the Fund. There is deducted and withheld from the salary of each judge electing to participate 3 percent of that judge's salary. The amounts deducted and withheld are deposited, in accordance with procedures prescribed by the Comptroller General of the United States, in the U.S. Treasury to the credit of the Tax Court Judges Survivors Annuity Fund. A judge may deposit, with interest at 4 percent per annum to December 31, 1947, and 3 percent per annum thereafter, compounded on December 31 of each year, to the credit of the Fund, a sum equal to 3 percent of the judge's salary and of that individual's basic salary, pay, or compensation for service as a Senator, Representative, Delegate, or Resident Commissioner in Congress, and for any other civilian service within the purview of 5 U.S.C. 8332. Each judge may elect to make the deposits in installments during continuance of service as a judge in such amount and under such conditions as may be determined in each instance by the chief judge of the Tax Court.

Notwithstanding the failure of a judge to make the deposit, credit is allowed for the service rendered, but the annuity of the surviving spouse of the judge is reduced by an amount equal to 10 percent of the amount of the deposit, computed as of the date of the death of the judge (unless the surviving spouse elects not to count the service, for which the deposit was not made, in determining the annuity due). No deposit is required from a judge for any year with respect to which deductions from salary were actually made under the civil service retirement laws. Also, no deposit is required for any honorable service in the Army, Navy, Air Force, Marine Corps, or Coast Guard of the United States.

Expenditure Purposes

The Fund is used to pay annuities to a deceased judge's surviving spouse and children.

If a judge who elects to participate in the Fund dies after having rendered at least 5 years of civilian service for which salary was withheld for the Fund (or for which salary was withheld under the civil service retirement laws), a surviving spouse or surviving dependent child is entitled to an annuity from the Fund. If the surviving spouse has not attained age 50 at the date of the judge's death (and no dependent child survives), the annuity commences when the surviving spouse reaches age 50. The annuity payable to a surviving spouse terminates upon the surviving spouse's death or remarriage. An annuity payable to a dependent child and to a surviving spouse, if the judge is also survived by a dependent child, begins immediately after the judge's death. The annuity for a dependent child terminates generally upon the surviving child's reaching 18 years of age, marriage, or death. If the child is incapable of self support because of mental or physical disability, the annuity would terminate only upon death, marriage, or recovery from the disability.

The annuity payable to a surviving spouse of a judge electing under the Fund is equal to a stated percentage (generally 1¼ percent) of the average annual salary received by the judge (whether the judge's salary or compensation for other allowable Federal service) for the 5 consecutive years in which the judge received the largest average annual salary, multiplied by the sum of years of judicial or other allowable Federal service. The annuity for the surviving spouse cannot exceed 37½ percent of the average annual salary of the judge. The annuity of the surviving spouse will be reduced to account for periods of time when the judge did not contribute to the Fund. The amount of the annuity payable to a surviving dependent is based upon the annuity payable to a surviving spouse (subject to certain limits).

Under the 1982 amendments, annuities payable with respect to judges dying after the date of enactment are increased by (1) basing the annuity on the judges' salary for the 3 (versus 5) consecutive years in which the judges received the largest average annual salary, and (2) increasing the maximum annuity to 40 percent (versus 37½ percent) of such average annual salary. These amendments also provide that survivor annuities will be adjusted for cost-of-living increases by increasing such annuities by 3 percent for each 5 percent by which the salary of Tax Court judges is increased. Annuities in pay status on the date of enactment are adjusted immediately to reflect post-1963 salary increases.

Under the 1984 amendments, the maximum annuities receivable by surviving children of a deceased Tax Court judge where the judge also leaves a surviving spouse are increased from $900 per year per family ($360 per child) to $4,644 per year per family ($1,548 per child). Where there is no surviving spouse, the maximum annuities for surviving dependent children are increased to $5,580 per year per family, or $1,800 per child, whichever is less. These increases are effective for annuities payable for months beginning after July 18, 1984.

MISCELLANEOUS

The statutory provisions governing this Fund are located at Internal Revenue Code section 7448.

FINANCIAL STATUS OF FUND

As of September 30, 1984, 17 judges of the Tax Court were participating in the Fund, and 3 eligible widows were receiving survivor annuities. Table 1 describes the present status of the Fund.

TABLE 1.—TAX COURT JUDGES SURVIVORS ANNUITY FUND—PROGRAM AND FINANCING

[In thousands of dollars]

	1984 actual	1985 estimate	1986 estimate
Total obligations	85	31	30
Financing:			
Unobligated balance available, start of year:			
Treasury balance	−33	−1	−5
U.S. securities (par)	−1,101	−1,301	−1,517
Unobligated balance available, end of year:			
Treasury balance	1	5	5
U.S. securities (par)	1,301	1,517	1,748
Budget authority (appropriation)	253	251	261
Net obligations	85	31	30
Outlays	85	31	30

Source: Fisal year 1986 Budget of the United States, Appendix, p. I–A23.

Section 12. Railroad Retirement System

The railroad retirement system is a federally legislated program which provides retirement, disability and survivor annuities to workers whose employment was connected with the railroad industry for at least 10 years. The system, in existence since 1936, was substantially modified by the Railroad Retirement Act of 1974 (RRA), which provided for closer coordination with the social security system. Credits are primarily secured by employment in the railroad industry, although any social security credits earned during employees' work careers are included in the benefit computation. Benefits are financed through a combination of employee, employer, and Federal Government contributions.

Retirement and survivor benefit payments during fiscal year 1984 totaled $6,099 million. These payments were made to 1,041,000 beneficiaries. Retired employee and spouse annuitants constituted 705,000 of these beneficiaries and received $4,417 million. Survivor beneficiaries received a total of $1,682 million, consisting of $1,670 million in monthly benefits and $11 million in lump-sum payments.

JURISDICTION

In the House of Representatives, the jurisdiction over the railroad retirement system is divided between two standing committees. Under the rules of the House, the Energy and Commerce Committee has jurisdiction over "railroads, including railroad labor, railroad retirement and unemployment, except revenue measures related thereto." That committee therefore has jurisdiction over the Railroad Retirement Act, which contains the substantive legislation relating to railroad retirement legislation. The Committee on Ways and Means has jurisdiction over all revenue measures, including the Railroad Retirement Tax Act (Chapter 22 of the Internal Revenue Code of 1954). Within the Committee on Ways and Means jurisdiction over employment taxes and trust fund operations relating to the railroad retirement system lies within the Subcommittee on Social Security.

RECENT LEGISLATION

In 1981 Congress took action (Public Laws 97-34 and 97-35) designed to insure the financial solvency of the railroad retirement system until 1990. These changes included both benefit reductions and tax increases.

The Committee on Ways and Means included in the Economic Recovery Tax Act (Public Law 97-34) payroll tax rate increases for both employers and employees and a limited authority to borrow against the financial interchange with social security. The Committee on Energy and Commerce also included this borrowing authority, benefit changes, and a "benefit preservation mechanism" in the 1981 Reconciliation Act (sec. 1126(b), Public Law 97-35).

Under this mechanism, as in effect prior to the passage of Public Law 98-76, the Railroad Retirement Board (RRB) must report to Congress and the President on or before April 1 of any fiscal year in which the Board determines that it would borrow 50 percent or more of the amount available under the borrowing authority. This report must include, among other things, an estimate of the first year in which the borrowing authority would be exhausted and benefits would have to be reduced in the absence of "funding adjustments."

A further requirement of this benefit preservation mechanism is that within 180 days of the submission of this report, the Board must issue regulations and publish them in the Federal Register. The regulations must provide for reducing benefits to the extent necessary so that payments would not exceed the funds available. The regulations are also to provide that non-Social Security benefits (tier II) are to be reduced first. The reductions would apply beginning with the first month of the fiscal year designated in the report as being the first fiscal year during which insufficient funds would preclude the payment of full benefits for the full year.

On February 18, 1983, the RRB issued the first report required under section 22. That report indicated that in the absence of corrective action, fiscal year 1984 would be the first year in which insufficient funds would preclude the payment of full benefits to all beneficiaries throughout the year. The report further indicated that rail employment had decreased faster than had been estimated prior to passage of the 1981 amendments, decreasing from 505,000 in 1981 to 440,000 in 1982. The regulations required to be promulgated were published in the Federal Register on July 7, 1983. If they had been implemented, these regulations would have provided for a reduction of approximately 40 percent in tier II benefits, effective October 1, 1983.

In order to avoid the benefit reduction which would have been required as a result of the benefit preservation mechanism, Congress enacted the Railroad Solvency Act of 1983 (Public Law 98-76).

A summary of those railroad retirement provisions included in Public Law 98-76 which were reported by the Committee on Ways and Means include the following:

(1) Provide three equal tax rate increases for both employer (1 percent) and employees (0.75 percent), effective on January 1, 1984, January 1, 1985, and January 1, 1986.

(2) Apply railroad retirement tier I and II taxes to an annual amount equal to 12 times the current applicable monthly wage base. (Effective on January 1, 1985.)

(3) Tax windfall benefits as a private pension and deposit proceeds to the Railroad Retirement Account until fiscal year 1989. Beginning in fiscal year 1989, the proceeds from the tax will be deposited in the Windfall Benefits Account. (Effective with benefits received on or after January 1, 1984.)

(4) Tax tier II benefits as a private pension and return proceeds to the Railroad Retirement Account until the earlier of fiscal year 1989; or the amount of revenue transferred under this provision equals $877 million. Beginning in fiscal year

1989 the proceeds from the tax would be deposited in the general fund. (Effective with benefits received on or after January 1, 1984.)

(5) Accelerate the employer payroll tax deposit schedule, to conform to the FICA deposit schedule. (Effective on January 1, 1984.)

(6) Create a "Social Security Equivalent Benefit Account" and deposit in the account all "social security equivalent" revenues. Pay all social security equivalent benefits out of the account. (Effective on October 1, 1984.)

(7) Provide that on July 1, 1985, and each subsequent July 1, the Railroad Retirement Board shall submit to the Congress a report on the actuarial status of the railroad retirement system and make any recommendation for financing changes that might be advisable, including adjustments in the level of tier II tax rates and the feasibility of diverting part of the employer portion of those rates to the Railroad Unemployment Insurance Account to aid in repayment of its debt to the Railroad Retirement Account.

BENEFIT STRUCTURE

The 1974 Railroad Retirement Act established three benefit components. The ongoing benefit system was divided into two "tiers," one of which roughly approximates social security (tier I), and the other, an industry staff retirement benefit (tier II). The third component preserved certain benefits for employees who had qualified for both railroad retirement and social security benefits prior to the 1974 act.[1]

Tier I

These benefits are based on the social security formula, using both the employee's combined railroad earnings and non-railroad social security covered earnings up to the social security maximum wage base. The tier I benefit is roughly equal to what the social security benefit would have been had the worker's railroad employment been covered by the social security program. Because the railroad retirement tier I benefit is based on both social security and railroad employment, any social security benefit to which the railroad retirement system beneficiary is also entitled is subtracted from the tier I benefit amount. Tier I benefits are adjusted for the cost-of-living by the same percentage as social security benefits.

Tier II

Tier II benefits are based on the employee's service in the railroad industry alone and are payable in addition to the tier I benefit amount. For new retirees, the tier II benefit is equal to seven-tenths of 1 percent of the employee's average monthly earnings in the 60 months of highest earnings, times the total number of years of railroad service, less 25 percent of any employee dual benefit windfall also payable. Effective in 1985, tier II benefits are automatically adjusted annually on January 1 at a rate equal to 32.5 percent of the social security automatic cost-of-living adjustment.

---

[1] In addition to the payment of benefits, expenditures from the Railroad Retirement Account can also be made in the form of loans to the Railroad Unemployment Insurance Account. However, the authority of the Railroad Unemployment Insurance Account to borrow from the Railroad Account expires on October 1, 1985. At the end of fiscal year 1984 the debt to the retirement account equalled $671 million; having increased from $575 million at the end of fiscal year 1983 and $286 million in fiscal year 1982.

Beginning with January 1984, the dollar amount of the next 5 percent of tier I cost-of-living increases will be subtracted from tier II benefits. Since the 1984 increase was 3.5 percent, a further tier II offset was made in 1985 so that the total offset is 5 percent of the 1983 tier I amount.

Dual benefit payments

One of the chief purposes of the Railroad Retirement Act of 1974 was to coordinate railroad retirement and social security benefit payments to eliminate certain dual benefits considered to be a "windfall" for persons receiving benefits under both systems.

This "windfall" was a result of the fact that the total benefit which these retirees received from both systems was higher than the benefit which they would have received if their benefit was based on their total career earnings but paid under only railroad retirement. The total benefit was higher in these cases since the social security benefit formula favors workers who have low average earnings throughout their careers. Low career average earnings result from a career of low wages or from a relatively short career in social security covered employment. Workers who spend a period of time in employment not covered by social security, such as railroad employment, receive the benefit of this "tilt" in the benefit formula, even though they may very well not have had low career earnings.

As a result of the 1974 Act, "windfall" benefits were eliminated for any employees not qualified for such benefits as of January 1, 1975. They were generally preserved for those individuals who were vested under both the railroad retirement and social security systems before 1975. These "windfall" benefits are financed out of the general revenue fund through an annual appropriation rather than from the social security or railroad retirement trust funds.

The costs of these payments, which were intended to be funded solely out of U.S. general revenues, has proven to be substantially more than the amount which was estimated at the time the 1974 act was passed, and substantially more than the funds that have been appropriated annually. The following table details the amount estimated to be necessary to pay windfall benefits, the amount which has been requested and the amount actually appropriated.

This resulted in an unanticipated expense to the railroad retirement account since the full windfall benefit paid from the retirement account was only partially offset through appropriated general revenue. (See "general revenue" below for further information.)

TABLE 1.—COMPARISON OF RAILROAD RETIREMENT BOARD ESTIMATES AND APPROPRIATIONS

[Dollar amounts in millions]

	Board estimates [1]	Requested appropriations	Actual appropriations
Fiscal year:			
1976	$250	$250	$250
1977	350	250	250
1978	356	250	250
1979	363	313	313
1980	363	313	313
1981	529	350	350
1982	440	350	390
1983	430	350	430
1984	420	350	420
1985	405	405	405
1986	392	392	392

[1] For fiscal years 1976 through 1981, the amount shown in this column is the Railroad Retirement Board's revised annual estimate of the amount needed each year, on a level basis, from the year of the estimate to the year 2000, to cover expected benefit costs. For fiscal year 1982 and later, the amount shown is the amount estimated necessary to pay benefits for that year.

Source: Railroad Retirement Board.

Supplemental annuities

These are provided under the 1974 Act equal to $23 for 25 years of service plus $4 for each additional year up to a maximum of $43 per month. However, as a result of the 1981 Omnibus Budget Reconciliation Act, employees hired after October 1, 1981 are not eligible for supplemental annuities when they retire.

Lump sum death benefits

These benefits are paid when there is no person eligible for a monthly survivor benefit in the month in which the worker died. Generally, 10 years of railroad service and a current connection with the railroad industry are required. For employees with 10 or more years of railroad service before 1975, the amount is based on the 1937 Act. For all other railroad workers, the amount is equivalent to that which would be paid under the Social Security Act (unless survivor benefits are paid).

Table 2 provides data concerning all railroad retirement benefits currently being paid. Table 3 presents data on new awards for November 1983.

TABLE 2.—NUMBER AND AVERAGE AMOUNT OF RETIREMENT AND SURVIVOR ANNUITIES IN CURRENT-PAYMENT STATUS AT END OF YEAR FOR SELECTED YEARS BY TYPE OF ANNUITANT

Fiscal year	Total	Type of beneficiary								
		Retired employees								
		Age	Disability	Supplemental	Spouses	Aged widows	Disabled widows	Widowed mothers	Children	Parents
Number at end of year:										
1971	1,067,121	348,737	95,364	81,611	212,075	278,741	2,972	8,076	39,096	449
1975	1,160,312	359,826	101,677	141,525	219,644	290,502	5,108	7,061	34,670	299
1977	1,201,059	364,402	99,672	169,257	230,758	292,653	6,206	6,298	31,566	243
1979	1,204,719	358,629	96,818	182,736	233,611	292,073	6,770	5,406	28,478	198
1980	1,203,006	355,983	95,218	188,111	233,916	290,315	6,999	4,985	27,288	189
1981	1,202,364	354,608	93,743	193,436	233,977	288,606	7,249	4,478	26,094	(1)
1982	1,200,427	352,609	92,146	197,885	237,839	286,193	7,376	4,053	22,172	158
1983	1,193,226	349,892	89,684	201,409	232,367	288,454	7,509	3,153	20,614	144
1984	1,182,606	345,834	87,932	202,055	230,433	286,593	7,425	2,974	19,226	134
Average amount:										
1971		$201	$186	$65	$95	$114	$115	$158	$112	$110
1975		329	309	62	153	233	200	234	206	187
1977		387	355	57	178	267	228	275	248	223
1979		461	419	54	210	314	265	336	300	273
1980		526	477	53	236	361	302	392	349	310
1981		579	525	52	251	401	331	442	393	(1)
1982		641	576	51	280	430	354	475	399	368
1983		663	593	50	287	432	355	475	394	367
1984		682	609	49	293	437	415	475	400	369

[1] Not available.

Note.—Data exclude survivor (option) annuities. On September 30, 1984, there were 129 option annuities in current-payment status averaging $94. Figures for widows include a small number of widowers. Includes divorced spouse and divorced and remarried widow annuities. Source: Railroad Retirement Board.

TABLE 3.—NUMBER AND AVERAGE AMOUNT OF NEW AWARDS BY BENEFICIARY TYPE, NOVEMBER 1984

	Number	Average award (monthly)
Employee annuities:		
Retired	1,047	$889
Disability (under age 65)	269	763
Supplemental	936	41
Spouse annuities	1,294	262
Survivor benefits:		
Aged widows and widowers	1,199	542
Disabled widows and widowers	23	405
Widowed mothers and fathers	43	484
Divorced and remarried widows	144	289
Children	110	457
Parents	1	232
Insurance lump sums	474	815
Residual payments	5	1,363
Total	4,130	3,414

Note.—Includes divorced spouse annuities.

Source: Railroad Retirement Board.

FINANCING THE RAILROAD RETIREMENT SYSTEM

The railroad retirement and survivors benefits are financed by six sources of income. These are (1) payroll taxes on railroad earnings paid by covered employees and employers up to a certain maximum wage base; (2) income from the social security financial interchange; (3) the proceeds derived from the taxation of railroad retirement benefits; (4) appropriations from general revenues; (5) interest on investments; and (6) a cents-per-hour tax levied on carriers only.

Payroll Taxes

The primary source of income to the railroad retirement account is payroll taxes levied on covered employers and their employees. Currently, both employers and employees pay a "tier I" tax which is equivalent to the social security tax rate. In addition, a "tier II" tax is paid by both rail employers and employees. These taxes are currently applied to compensation paid to employees, up to a maximum amount, in a calendar month. However, effective January 1, 1985, railroad retirement taxes will be applied to annual rather than monthly wage bases. The 1985 annualized tier I and tier II wage bases are $39,600 and $29,700 respectively.

The scheduled tax rate for both tier I and tier II are as follows:

	Tier I		Tier II		Combined	
	Employer	Employee	Employer	Employee	Employer	Employee
1984	7.00	[1] 7.00	12.75	2.75	19.75	9.75
1985	7.05	7.05	13.75	3.50	20.80	10.55
1986	7.15	7.15	14.75	4.25	21.90	11.40
1987	7.15	7.15	14.75	4.25	21.90	11.40
1988	7.51	7.51	14.75	4.25	22.26	11.76
1989	7.51	7.51	14.75	4.25	22.26	11.76
1990 and later	7.65	7.65	14.75	4.25	22.40	11.90

[1] A credit of 0.3 percent of wages will be allowed against the 1984 employee tax rate. Appropriation to the Social Security Equivalent Benefit Account will be based on the 7.00 percent rate.

The tier I wage base is generally identical with the social security wage law and automatically increases with wage growth in the economy. The tier I wage base is estimated by the Railroad Retirement Board to be as follows:

1986	41,100
1987	43,200
1988	45,900
1989	48,900
1990	52,200

The tier II wage base is equal to what the social security tax rate would have been without regard to the ad hoc increases in the taxable wage base which were provided by the Social Security Amendments of 1977 (Public Law 95-215). The tier II wage base is estimated by the Railroad Retirement Board to be as follows:

1986	30,900
1987	32,400
1988	34,500
1989	36,900
1990	39,300

Financial Interchange

The railroad retirement system and the social security programs have been coordinated financially since 1951. The purpose of the financial interchange is to place the social security trust funds in the same position they would have been in if railroad employment had been covered under social security since its inception.

TABLE 4.—AMOUNTS TRANSFERRED TO OR FROM (−) THE RAILROAD RETIREMENT ACCOUNT AND THE VARIOUS SOCIAL SECURITY TRUST FUNDS FOR FISCAL YEARS 1954 THROUGH 1986

[In millions of dollars]

	OASI	DI	HI	Total
Fiscal year:				
Through June 30, 1954	−21.1			−21.1
1955	−7.4			−7.4
1956	−5.2			−5.2
1957	−1.6			−1.6
1958	124.4			124.4
1959	282.0	−22.0		260.0
1960	318.4	−4.9		313.5
1961	331.7	5.1		336.8
1962	360.8	11.0		371.8
1963	422.5	19.6		442.1
1964	402.6	19.1		421.7
1965	435.6	23.6		459.2
1966	443.8	25.0		468.8
1967	508.0	30.6	−16.3	522.3
1968	437.6	20.4	−44.0	414.0
1969	491.5	21.3	−54.2	458.6
1970	578.8	10.4	−63.5	525.7
1971	613.0	13.2	−65.9	560.3
1972	724.3	24.2	−66.1	682.4
1973	783.0	19.5	−63.2	739.3
1974	908.6	22.3	−99.2	831.7
1975	981.8	28.5	−132.5	877.8
1976	1,212.3	26.4	−137.7	1,101.0
1977 [1]	1,207.8	−0.3	−142.9	1,064.6
1978	1,588.7	29.8	−213.7	1,404.8
1979	1,447.5	29.9	−191.1	1,286.3
1980	1,442.0	−12.1	−244.3	1,185.6
1981	1,585.0	29.0	−276.0	1,338.0
1982	1,793.3	26.4	−351.4	1,468.3
1983	2,251.0	28.0	−358.0	1,921.0
1984	2,404.0	22.0	−351.0	2,075.0
1985 [2]	2,306.0	68.0	−364.0	2,010.0
1986 [2]	2,363.0	71.0	−383.0	2,051.0
Total	28,713.3	555.1	−3,618.6	25,649.8

[1] Includes July–September 1976 transition quarter.

[2] Railroad Retirement Board assumptions used for 1984 OMB mid-session review.

Source: Railroad Retirement Board.

Generally, under the interchange, for a given fiscal year there is computed the revenue that would have been collected by the social security trust funds if railroad employment had been covered directly by social security. This amount is netted against the amount of benefits social security would have paid to railroad beneficiaries based on railroad and nonrailroad earnings during that period. Where social security benefits that would have been paid exceed income to the trust funds that would have been due, the excess, plus an allowance for interest and administrative expenses, is transferred from the social security trust funds to the Railroad Retirement Account. If income exceeds benefits, the transfer would be from the Railroad Retirement Account to the social security trust funds.

The determination of the amount to be transferred through the financial interchange for a given fiscal year is made no later than June of the year following the close of the preceding fiscal year. Table 4 shows the actual operation of the financial interchange as it relates to each of the three major social security trust funds.

In order to make available to the railroad retirement account funds from the forthcoming financial interchange on a more current basis, the Railroad Retirement Solvency Act of 1983 provides for transfers from general Treasury funds to the Railroad Retirement Account for each month an amount equal to the social security level benefits paid from the account during the month less the social security level taxes received by the account in that month. The amount so transferred for a particular month would be repaid when the social security system makes reimbursement for that month under the financial interchange program.

TAXATION OF BENEFITS

Prior to 1984, railroad retirement benefits, with the exception of supplemental annuities, were not subject to Federal income taxation. However, as a result of the Railroad Retirement Solvency Act (Public Law 98-76) and the Social Security Act Amendments of 1983 (Public Law 98-21), all tier I, tier II, and windfall benefits received after December 31, 1983, are subject to taxation.

Tier I benefits are taxed in a manner identical to social security benefits. The proceeds derived from the taxation of those tier I benefits which are equivalent to social security benefits will be deposited in the newly created Social Security Equivalent Benefit Account and credited to the social security trust funds through adjustments in the financial interchange. The revenue raised through the taxation of tier I benefits which are not equivalent to social security benefits are deposited in the Railroad Retirement Account. Tier II benefits are taxed in a manner identical to private pensions and the proceeds deposited in the Railroad Retirement Account until fiscal year 1989 or until the amount of revenue transferred under this provision equals $877 million, if earlier. Windfall benefits are taxed as a private pension with the proceeds derived deposited in the Dual Benefits Payments Account.

General revenue appropriations

Windfall benefits are funded solely through general revenue appropriations. The Congress authorized such funding in the 1974 act through the year 2000. The total appropriated for the first 9 fiscal years for which windfall benefits were payable, 1976-1984, was $2,966 million. (See table 1 for the annual appropriation amounts.)

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) established a Dual Benefits Payments Account. Each year an amount which is appropriated for the payment of dual benefits will be placed into this account from which these payments will be made to beneficiaries. If the amount which is appropriated is insufficient to pay the full windfall benefits to all eligible beneficiaries for a full year, the Railroad Retirement Board is authorized to prorate payments from the dual benefits account so that the amounts paid do not exceed the amounts appropriated.

In addition to amounts transferred to the Dual Benefits Payments Account annually through the regular appropriations process, the Railroad Retirement Solvency Act of 1983 provided for the appropriation of approximately $1.7 billion to the Railroad Retirement Account in three installments paid on Jan. 1, 1984, 1985, and 1986.

Interest from investments

Funds not needed immediately for benefit payments are invested in interest-bearing securities. During fiscal year 1984 the Railroad Retirement Account received $237 million in interest income from its invested assets. This represents an annualized yield of 12.77 percent.

Cents-per-hour tax

A cents-per-hour tax is used to fund the supplemental annuity benefit. This tax is levied solely on employers. The rate is determined quarterly by the Railroad Retirement Board.

FINANCIAL STATUS OF THE RAILROAD RETIREMENT ACCOUNT

One of the most important factors affecting the financial status of the railroad retirement system is the level of employment in the industry. The recent history of industry employment follows:

TABLE 5.—HISTORIC LEVELS OF INDUSTRY EMPLOYMENT, 1940-83

[In thousands]

1940	1,195
1945	1,085
1950	1,421
1955	1,239
1960	909
1965	753
1970	640
1975	548
1976	540
1977	546
1978	542
1979	554
1980	532
1981	503
1982	438
1983	398

Source: Railroad Retirement Board.

The Railroad Retirement Board has prepared projections of the railroad retirement system's ability to pay benefits under two employment assumptions of the Railroad Unemployment Compensation Committee. The Railroad Unemployment Compensation Committee, which was established by the Railroad Retirement Solvency Act of 1983 to study the railroad unemployment and sickness insurance systems, used these assumptions in preparing its report. Assumptions A and B are the middle and most conservative, respectively, of the three employment projections used by the committee. The assumptions, and the resulting December 31 fund balances, are shown below. The employment assumptions are in thousands and the fund balances are in millions. Fund balances represent the combined Railroad Retirement and Social Security Equivalent Benefit Accounts. The results indicate that the 1983 legislation provides the railroad retirement system with sufficient funds for the payment of benefits through 1990, even under the most pessimistic assumption considered by the recent Railroad Unemployment Compensation Committee.

TABLE 6.—TRUST FUND BALANCES UNDER THE COMBINED RAILROAD RETIREMENT AND SOCIAL SECURITY EQUIVALENT BENEFIT ACCOUNTS (END OF YEAR) UNDER TWO EMPLOYMENT ASSUMPTIONS

[Dollars in millions, other amounts in thousands]

Calendar year	Employment assumption		Fund balance assumption	
	A	B	A	B
1985	385	375	$3,920	$3,843
1986	371	351	5,547	5,338
1987	364	342	6,422	6,024
1988	361	336	7,133	6,474
1989	347	314	7,610	6,688
1990	334	295	8,011	6,747

Section 13. Railroad Unemployment Compensation System

The railroad unemployment compensation (RRUC) system has been in existence since 1938. Railroad workers were initially covered by the unemployment provisions of the Social Security Act of 1935. The Railroad Unemployment Insurance Act (Public Law 75-722) was passed in 1938 to provide a uniform unemployment insurance system for all railroad workers, regardless of the State in which they worked or lived. This was done largely because of administrative problems at that time in handling claims for railroad workers who earned wages in a number of different States and as a result of the railroad unions' desire that individuals throughout the industry be treated the same for purposes of unemployment compensation.

BENEFITS AND ELIGIBILITY REQUIREMENTS

A worker must have at least $1,500 of creditable, railroad earnings in the base year to qualify for RRUC benefits. In addition, if the worker has not worked in the railroad industry previously, he must have railroad earnings in at least 5 months of the base year. (The base year is the calendar year before the beginning of the benefit year which begins on July 1 for all claimants.) The first $600 of railroad earnings in each month are creditable toward the qualifying earnings requirement. Up to $775 per month in the base year is creditable toward the maximum benefit.

An unemployed worker who meets the qualifying requirements can receive RRUC benefits for each "day of unemployment." An individual, however, cannot receive benefits for more than 10 days of unemployment in any 2-week period. In order to receive a daily benefit, a worker must be able to work and be available for railroad work. He must also register for work at the railroad unemployment office.

A qualified, unemployed railroad worker may receive a daily unemployment compensation benefit equal to 60 percent of his last daily rate of pay in the base year, up to a maximum of $25. The minimum daily benefit is $12.70. The equivalent weekly RRUC benefit ranges from $63.50 to a maximum of $125 (5 times the $25 daily payment). The weekly maximum has been $125 since 1976.

The nominal average weekly amount in a benefit year has grown in spurts from $8 in 1940 to $125 in 1984. The average weekly benefit amount in constant 1982 dollars, however, declined by 37 percent, from a peak of $191 in 1975 to $125 in 1982. Moreover, the 1982 level was lower than the constant dollar level as long ago as 1958 when it was $138.

The program offers "normal" benefits and three categories of "extended" benefits. The duration of benefits varies by worker. Qualified workers can receive normal benefits for up to 130 days or

26 weeks, but the total may not exceed their creditable wages in the base year. Three groups of workers may get extended benefits:

(1) Workers with at least 15 years of railroad service may get up to 130 additional days, or up to an additional 26 weeks of benefits beyond the normal 26 weeks;

(2) Workers with at least 10 but fewer than 15 years of railroad service may receive up to 65 additional days or 13 additional weeks; and

(3) Under Public Law 98-181, a supplemental appropriations bill, workers with fewer than 10 years of service could receive 50 additional days or 10 additional weeks of benefits through June 30, 1984. Unlike the other payroll-financed RRUC benefits, the Federal general fund financed the extended benefits for workers with fewer than 10 years of service.

TABLE 1.—PERMANENT BENEFITS UNDER THE RAILROAD UNEMPLOYMENT COMPENSATION PROGRAM AS OF JUNE 30, 1984

Qualifying wages	$1,500.
Daily benefit rate:	
Basic rate	60 percent of daily rate of pay.
Maximum	$25.00.
Minimum guarantee	$12.70.
Maximum normal benefits:	
For a 1-week period	$125.00.
For benefit year:	
Duration	130 compensable days.
Amount	$3,250.[1]
Maximum extended benefits: [2]	
10-14 years service:	
Duration	65 compensable days.
Amount	$1,625.
15 or more years service:	
Duration	130 compensable days.
Amount	$3,250.

[1] Not to exceed the employee's taxable earnings in the base year counting earnings up to $775 a month.

[2] Public Law 98-181 provided temporary supplemental benefits for up to 10 additional weeks through June 30, 1984 for workers with less than 10 years of service.

Source: U.S. Railroad Retirement Board Handbook on Railroad Retirement and Unemployment Insurance Systems. January 1982 p. V-6, (processed).

The average duration of benefits fluctuates closely with the unemployment rate. In the 1940 through 1984 period, it ranged from 7.4 to 19.1 weeks and averaged 11.7.

In 1946, a program of cash sickness benefits was established for railroad workers as part of the unemployment compensation system. Sickness benefits are financed out of the same employer paid payroll taxes used to finance unemployment compensation benefits. A qualified railroad worker may receive sickness benefits if he files a "statement of sickness" signed by a doctor within 10 days of the first day for which a day of sickness is claimed.

A rail worker who is unemployed due to a strike legally authorized under the the Railroad Labor Act of 1926 can receive unemployment compensation benefits after a 14 day waiting period. Unemployment benefits cannot be paid to individuals participating in a strike that is in violation of the Railway Labor Act, and is therefore "illegal." Individuals who are unemployed due to an "illegal" strike, but who are not actually participating in the strike, are eligible for unemployment compensation benefits but are subject to the 14 day waiting period.

Total expenditures for unemployment and sickness payments were $262 million in benefit year 1984, which was 1.9 percent of total wages paid by the industry during the same period. This compares to a peak of 5.1 percent in 1959. It is also much lower than in benefit year 1983, a recession year, when the figure was 3.9 percent. Since the beginning of sickness benefits, unemployment benefits have composed about two-thirds of total payments. In 1984, unemployment benefits accounted for 83 percent of the total.

Benefit payments vary directly with the insured unemployment rate, covered employment, average weekly benefit amount, and average duration of benefits. The insured unemployment rate is the percentage of workers qualified under the RRUC program who drew benefits in a particular benefit year. The railroad insured unemployment rate has been high and volatile since the beginning of the RRUC program, averaging 14 percent. Since 1946 it has ranged from a relatively high 7 percent to 30 percent in benefit year 1983.

Changes in covered employment have short-run and long-run effects on the RRUC program. In the short run, when layoffs cause employment to decline, the insured unemployment rate and benefits paid increase. In the long run, when employers have fewer workers to layoff, benefits decline and the program shrinks. Since the peak of 1,680,000 workers in calendar year 1945, railroad employment declined to 401,000 in 1984. Two-thirds of this decline occurred in the 16 years between 1945 and 1961. In the 23 years since then, the remaining one-third of the decline occurred. In other words, the average annual rate of decline through 1961 was 53,000, but after 1961 it was 19,000.

TAXES

The railroad unemployment and sickness benefit program is financed by payroll taxes paid by railroad employers. The employees themselves do not contribute. Effective January 1, 1984, the taxable earnings base is the first $600 of each employee's monthly earnings.

The payroll tax rate is determined from a schedule in the Railroad Unemployment Insurance Act and may vary from 0.5 percent to 8 percent. This method of financing is, in effect, an experience rating plan on an industrywide basis. For any particular calendar year, the tax rate depends on the balance in the Railroad Unemployment Insurance Account, including the balance in the Railroad Unemployment Insurance Administration Fund, on the preceding September 30, as shown in the following schedule:

Balance to credit of Railroad Unemployment Insurance Account on September 30	Rate for next calendar year (percent)
$300,000,000 or more	0.5
$200,000,000 or more but less than $300,000,000	4.0
$100,000,000 or more but less than $200,000,000	5.5
$50,000,000 or more but less than $100,000,000	7.0
Less than $50,000,000	8.0

Railroad unemployment taxes are collected by the Railroad Retirement Board. Of each year's tax receipts, an amount equal to 0.5 percent of taxable payroll is set aside for administration. As a result, annual appropriations from general revenues for administration of the unemployment and sickness program are not required. Excess funds allocated but not needed for administration are transferred to the Railroad Unemployment Insurance Account at the end of such fiscal year.

The Railroad Unemployment Insurance and Railroad Administration Accounts are part of the Federal Unemployment Trust Fund. This trust fund has 53 State UC program accounts, 4 Federal accounts, and the 2 railroad accounts.

Despite occasional increases in the tax rates and taxable wage base, taxes and reserves have not covered RRUC unemployment and sickness benefit payments in 20 of the last 25 years. The tax rate on taxable wages increased to 8 percent in 1977 and 1978; dropped to 7.0 percent in 1979 and to 5.5 percent in 1980; and rose to 8.0 percent in 1981 through 1984. This monthly taxable wage base was increased from $300 to $350 in 1954; to $400 in 1959 and to $600 in 1984. As a result, the taxable wage base in constant dollars had declined dramatically. The monthly taxable wage base would have been approximately $2,100 in 1983 if Congress had maintained the real value of the $300 taxable wage base in effect in 1940. In other words, the industry has taxed progressively less of total annual wages paid. The ratio of taxable wages to total wages had declined from 99 percent in 1940 to only 16 percent in 1983.

Since 1959, the railroad unemployment trust fund has been able to borrow funds from the railroad pension fund when employer taxes have not been sufficient to cover the costs of unemployment and sickness benefits. This borrowing authority expires September 30, 1985. In the past, borrowed funds have been repaid. The RRUC program became insolvent for the first time in 1960 after a long decline from peak reserves of nearly 18 percent of total annual wages in 1949. By 1963, it owed the retirement account $312 million, or 5.8 percent of total annual wages paid in the industry that year. The program gradually recovered during the 1960s until it had positive reserves again in 1974. Thereafter, the program became insolvent again in 1976 through 1978, and 1981 through 1984.

A rapid decline in 1981 and 1982 in railroad employment resulted in substantial borrowing from the pension system. By December 31, 1984, the RRUC program owed the railroad pension system

$717 million. This is about 5 percent of total wages projected to be paid in the industry that year. No further borrowing is anticipated until September 30, 1985, when an estimated $89 million will be borrowed to pay interest accrued during the fiscal year. In other words, it is projected that the RRUC program will owe the retirement account approximately $783 million by the end of fiscal year 1985.

Prior to the passage of the Railroad Retirement Solvency Act of 1983 (Public Law 98-76), there were no specific requirements or procedures for the repayment of funds the RRUC system borrowed from the rail pension system. In general, loans have been repaid whenever, and to the extent, RRUC program tax receipts in a year exceeded that year's benefit, administration and debt service costs.

Public Law 98-76 established, as part of the Federal Unemployment Tax Act (FUTA), a railroad unemployment repayment tax. This repayment tax will operate similarly to the FUTA tax that is paid by non-railroad industries in States with overdue Federal unemployment loans. Beginning on July 1, 1986, rail employers will pay a tax of 2.0 percent on the first $7,000 in annual wages paid to each employee. This tax will increase by 0.3 percent on each subsequent January 1, up to a maximum 5.0 percent, until all outstanding loans (principal and interest) from the rail pension system have been repaid. The tax will expire on October 30, 1990. Revenue raised by this repayment tax can be used only for the repayment of loans the RRUC program has received from the pension system.

PART 3

REVENUES

Section 1. Summary Information
Section 2. Bibliographic Information

Section 1. Summary Information

This part provides summary information regarding Federal revenues and the U.S. tax system. Most, but not all, budget receipts are derived from taxes. Table 1 shows budget receipts, by source, for recent years. Table 2 indicates the relative significance of the major types of receipts. Over recent years the relative significance of corporate income taxes has declined; social insurance taxes and contributions have increased as a share of the total.

Table 3 provides information on the number of tax returns, by type filed in 1981 through 1984. The gross amount of taxes collected exceeds net collections by the amount of refunds. As indicated in table 4, individual income tax refunds in 1984 were 18 percent of gross collections.

The sources of income reported on individual income tax returns for 1982 and 1983 are listed in table 5 along with additional summary information. About 96 million individual income tax returns were filed for the 1983 taxable year. The number of exemptions listed on these returns, 234 million, approximately equaled the U.S. population, though the extra exemptions for those over 65, certain students, and the blind result in the double counting of certain individuals in arriving at the total number of exemptions claimed. Wages and salaries represented about 85 percent of reported adjusted gross income. Tax liabilities represented nearly 15 percent of adjusted gross income.

About 37 percent of all taxpayers itemized their deductions on individual income tax returns for 1983 (see table 6 for a comparison with prior years). These deductions, by type, are shown in table 7. Statutory adjustments used in calculating tax liabilities for 1983 are shown in table 8. Information on tax credits claimed by individuals is shown in table 9.

The distribution of tax liabilities and income by adjusted gross income class, based on information contained on 1983 tax returns, is displayed in table 10.

The most recently published information for corporate income tax returns is summarized in table 11. Of the nearly 2.8 million returns filed by active corporations for 1981, only 36 percent had a tax liability, after accounting for tax credits and carryover losses. Slightly fewer than 1 million corporations paid total taxes of $58.4 billion.

Table 12 presents the summary findings of the studies published by the staff of the Joint Committee on Taxation with respect to the effective tax rates of large corporations for 1982 and 1983. The average effective U.S. tax rate on U.S. source income was about 16 percent in 1982 and 17 percent in 1983. The variation in effective rates among industries was significant in both years. Those studies should be consulted for the methodology involved in calculating effective tax rates.

The term "tax expenditures" is widely used to denote the decrease in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that provide economic incentives to the private sector or tax relief to particular kinds of taxpayers. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability. Table 13 presents the most recent tax expenditure estimates for fiscal year 1984. For a more complete discussion of the tax expenditure concept, the sources listed in the table should be consulted.

TABLE 1.—BUDGET RECEIPTS BY SOURCE, 1976–84

[In billions of dollars]

Description	1976	1978	1980	1982	1984
RECEIPTS BY SOURCE					
Individual income taxes	131.6	181.0	244.1	297.7	296.2
Corporation income taxes	41.4	60.0	64.6	49.2	56.9
Social insurance taxes and contributions:					
Employment taxes and contributions	79.9	103.9	138.7	180.7	221.9
Unemployment insurance	8.1	13.8	15.3	16.6	25.1
Other retirement contributions	2.8	3.2	3.7	4.2	4.6
Total social insurance taxes and contributions	90.8	121.0	157.8	201.5	241.7
Excise taxes:					
Alcohol	5.3	5.5	5.6	5.4	5.3
Tobacco	2.5	2.4	2.4	2.5	4.7
Highway	5.4	6.9	6.6	6.7	11.7
Airport and airway	0.9	1.3	1.9	0.1	2.5
Windfall profit tax			6.9	18.4	8.9
Other	2.8	2.2	0.9	3.2	4.3
Total excise taxes	17.0	18.4	24.3	36.3	37.4
Estate and gift taxes	5.2	5.3	6.4	8.0	6.0
Customs duties	4.1	6.8	7.2	8.9	11.4
Miscellaneous receipts	8.0	7.4	12.7	16.2	17.0
Total budget receipts	298.1	399.7	517.1	617.8	666.6

Source: The United States Budget in Brief, Fiscal Year 1986, Executive Office of the President, Office of Management and Budget, p. 66.

TABLE 2.—BUDGET RECEIPTS BY SOURCE, 1976 AND 1984

	1976		1984	
	Amount (billions)	Percent of total	Amount (billions)	Percent of total
Individual income taxes	131.6	44.1	296.2	44.8
Corporation income taxes	41.4	14.3	56.9	8.5
Total social insurance taxes and contributions	90.8	30.5	241.7	36.2
Total excise taxes	17.0	5.7	37.4	5.6
Estate and gift taxes	5.2	2.0	6.0	0.9
Customs duties	4.1	1.4	11.4	1.7
Miscellaneous receipts	8.0	2.7	17.0	2.5
Total budget receipts	298.1	100	666.5	100

Source: The United States Budget in Brief, Fiscal Year 1986, Executive Office of the President, Office of Management and Budget, p. 66.

TABLE 3.—NUMBER OF RETURNS FILED, BY PRINCIPAL TYPE OF RETURN, CALENDER YEARS 1981–84

[In thousands]

Type of return	1981	1982	1983	1984
Income tax returns:				
Individual	94,018	95,481	95,284	96,288
Declaration of estimated tax	30,347	31,863	33,080	32,597
Fiduciary	1,197	1,964	1,994	2,013
Partnership	1,467	1,561	1,586	1,663
Corporation	2,806	2,950	3,078	3,129
Total income tax returns	130,555	133,819	135,022	135,690
Estate tax	146	135	111	90
Gift tax	199	99	91	87
Employment tax	26,063	25,835	25,537	26,133
Exempt organization	409	444	437	393
Employee plans	790	1,021	752	955
Alcohol, tobacco, and firearms	522	233	582	552
Excise tax	971	1,172	1,010	694
Supplemental documents	6,817	7,556	7,602	7,887
Non-Master file returns	56	55	30	32
Grand total	166,528	170,369	171,174	172,512

Source: Commissioner of Internal Revenue, Annual Report, 1981, 1982, 1983, and 1984.

TABLE 4.—INCOME TAX GROSS COLLECTIONS, REFUNDS, AND NET RECEIPTS, 1984

[In millions of dollars]

Individual income tax:	
Gross collections	360,977
Withheld	(279,345)
Other	(81,632)
Refunds	−64,771
Net receipts	296,206
Corporation income taxes:	
Gross collections	74,179
Refunds	−17,286
Net receipts	56,893

Source: Executive Office of the President, Office of Management and Budget, Budget of the U.S. Government, Fiscal Year 1986, p. 9–24.

TABLE 5.—INDIVIDUAL INCOME TAX—SOURCES OF INCOME AND SELECTED TAX ITEMS, 1982 AND 1983

Items	Billions of dollars except as noted	
	1982	1983
Number of returns, total (millions)	95.3	96.3
Taxable	77.0	78.1
Nontaxable	18.3	18.2
Number of exemptions (millions)	232.2	234.4
Adjusted gross income less deficit	1,852.1	1,950.8
Sources of income:		
Salaries and wages	1,565.0	1,651.7
Pensions and annuities in adjusted gross income	60.1	70.1
Business and profession net profit less loss	50.6	58.8
Farm net profit less loss	−9.8	−8.6
Partnership net profit less loss	−.9	.3
Small Business Corporation net profit less loss	−.8	3.1
Sales of capital assets net gain less loss	34.4	45.5
Sales of property other than capital assets net gain less loss	.6	1.1
Dividends received	54.0	50.8
Interest received	157.0	152.9
Dividends and interest in adjusted gross income	209.2	200.9
Farm net rental income less loss	2.2	2.1
Rent net income less loss	−8.5	−9.7
Royalty net income less loss	6.3	5.5
Estate or trust net income less loss	5.7	6.0
All other sources (net)	3.0	5.4
Total statutory adjustments	64.9	81.6
Total itemized deductions	284.5	307.1
Taxable income	1,473.3	1,551.3
Zero bracket amount	241.5	NA
Exemptions (amount)	232.1	234.4
Income tax before credits	283.9	282.0
Total credits	7.9	7.9
Income tax after credits	276.1	274.1
Additional tax for tax preferences—minimum tax	1.6	1.9
Total income tax	277.6	276.1
Self-employment tax	6.8	7.5
Total tax liability	284.7	283.9

Source: U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, 1982 and Advance Data, 1983 Individual Income Tax Returns.

TABLE 6.—INDIVIDUAL INCOME TAX RETURNS WITH ITEMIZED DEDUCTIONS, 1960–83

[In millions]

	Total individual returns [1]	Returns with itemized deductions	
		Number	Percent of total
1960	61.0	24.1	39.5
1965	67.6	27.9	41.3
1970	74.3	35.4	47.6
1972	77.6	27.0	34.8
1973	80.7	28.0	34.7
1974	83.3	29.6	35.5
1975	82.2	26.1	31.8
1976	84.7	26.0	30.7
1977	86.6	22.9	26.4
1978	89.9	25.8	28.7
1979	92.6	26.5	28.6
1980	93.6	28.8	30.8
1981	95.4	31.6	33.1
1982	94.8	33.2	35.0
1983	96.3	35.2	36.6

[1] Through 1970, excludes returns with no adjusted income; thereafter includes returns with no adjusted income.

Source: Statistical Abstract of the United States 1980, p. 269, and U.S. Department of Treasury, Internal Revenue Service, SOI Bulletin, Vol. 1, No. 3, Winter 1981-82 Statistics of Income, Individual Income Tax Returns, 1982, and Advance Data, 1983 Individual Income Tax Returns.

TABLE 7.—INDIVIDUAL INCOME TAX—ITEMIZED DEDUCTIONS BY TYPE, 1983

	Number of returns (millions)	Amount (billions)
Medical and dental	9.6	$17.9
Taxes paid	34.8	100.2
Contributions	32.1	37.5
Interest	31.7	132.5
Miscellaneous deductions	29.0	19.1
Net casualty or theft loss	(.2)	(.8)
Total	35.2	307.1

Source: U.S. Department of the Treasury, Internal Revenue Service, Advance Data, 1983 Individual Income Tax Returns.

TABLE 8.—INDIVIDUAL INCOME TAX—STATUTORY ADJUSTMENTS BY TYPE, 1983

	Number of returns (millions)	Amount (billions)
Moving expenses	1.5	$3.8
Employee business expense	7.4	17.7
Payments to an IRA	13.7	32.3
Payments to a Keogh plan	.6	2.9
Forfeited interest penalty	.7	.3
Alimony paid	.6	3.1
Deduction for working married couple	22.7	19.9
Disability income exclusion	.2	1.0
Other	.2	.5
Total	33.2	78.1

Source: U.S. Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, Advance Data 1983.

TABLE 9.—INDIVIDUAL INCOME TAX—TAX CREDITS BY TYPE, 1983 [1]

	Number of returns (millions)	Amount (billions)
Child care credit	6.4	$2.1
Earned income credit	2.6	.3
Credit for the elderly	.4	.1
Investment credit	4.6	3.9
Foreign tax credit	.4	.5
New jobs credit	.1	.1
Political contributions credit	5.0	.3
Residential energy credit	2.6	.6
Total	19.4	7.9

[1] Excludes credits claimed by less than 50,000 taxpayers.

Source: U.S. Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, Advance Data 1983.

TABLE 10.—RETURNS, ITEMIZERS, ADJUSTED GROSS INCOME, AND TAX LIABILITIES, BY ADJUSTED GROSS INCOME CLASS, 1983

Adjusted gross income	Number of returns (millions)	Percentage itemizing deductions	Adjusted gross income		Income tax liability [1]		Liability as a percent of adjusted gross income
			Billions	Percent	Billions	Percent	
No A.G.I	0.9	NA	$23.1	−1.2	$0.1	(*)	NA
Below $5,000	16.8	4.2	44.4	2.3	.4	0.1	.9
$5,000 under $10,000	16.7	10.2	125.3	6.4	4.6	1.7	3.7
$10,000 under $15,000	14.0	19.3	172.6	8.8	13.2	4.8	7.7
$15,000 under $20,000	10.8	31.5	187.8	9.6	18.4	6.7	9.8
$20,000 under $30,000	16.2	54.3	400.2	20.5	46.3	16.8	11.6
$30,000 under $50,000	15.6	82.1	588.4	30.2	82.7	30.0	14.1
$50,000 under $100,000	4.4	95.5	282.3	14.5	53.9	19.5	19.1
$100,000 under $200,000	.6	98.9	83.3	4.3	22.4	8.1	26.9
$200,000 and above	.2	99.3	89.7	4.6	32.9	11.9	36.7
Total	96.3	35.2	1,950.8	100.0	276.1	100.0	14.2

* Less than 0.05 percent.

[1] Tax liabilities do not reflect the refundable portion of the earned income credit.

Source: U.S. Department of the Treasury, Internal Revenue Service, Advance Data, 1983 Individual Income Tax Returns.

TABLE 11.—CORPORATION INCOME TAXES—RETURN CHARACTERISTICS OF ACTIVE CORPORATIONS, 1981

Item	Number of returns	Amount [1]
Returns With and Without Net Income		
Number of returns	2,812,420	—
Total receipts	2,696,612	7,026,352
Net income (less deficit)	2,794,556	213,649
Total income tax	1,203,006	102,258
Returns With and Without Net Income, Other Than Forms 1120S and 1120—DISC		
Number of returns	2,261,523	—
Total receipts	2,182,599	6,764,236
Net income (less deficit)	2,247,708	200,868
Statutory special deductions, total	378,036	17,467
Net operating loss deduction	274,157	9,705
Total special deductions	110,917	7,762
Income subject to tax, total	1,153,691	241,487
Net long-term capital gain taxed at alternative rates	31,858	14,844
Income taxed at regular rates	1,152,860	226,643
Income tax, total	1,202,833	102,256
Regular and alternative tax	1,153,690	100,642
Personal holding company tax	2,705	5
Tax from recomputing prior-year investment credit	189,310	1,084
Additional tax for tax preferences	8,012	525
Foreign tax credit	6,132	21,829
U.S. possessions tax credit	567	1,946
Investment credit	804,015	18,887
Work incentive (WIN) credit	8,639	38
Jobs credit	79,245	473
Research activities credit	8,610	639
Total income tax after credits [3]	998,740	58,443
Distribution to stockholders (except in own stock)	2,812,420	120,295
Returns with net income	2,794,566	110,555
Total assets	2,812,420	8,547,162
Depreciable assets	2,812,420	2,352,655
Depreciation deduction	2,812,420	186,195

---

[1] Amounts in millions of dollars.

[2] The income of firms that file form 1120S (subchapter S corporations) is taxed at the individual level. The income of firms that file form 1120-DISC (domestic international sales corporations) generally is not included in taxable income.

[3] Credits include foreign tax, U.S. possessions tax, investment, work incentive (WIN), jobs, nonconventional source fuel, alcohol fuel, and research activities credits.

Note.—Detail may not add to total because of rounding; 1981 data are for corporations with taxable years beginning July 1980 through June 1981.

Source: U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income 1981. Corporation Income Tax Returns.

TABLE 12.—COMPARISON OF CORPORATE EFFECTIVE TAX RATES BY INDUSTRY, 1982 AND 1983

Industry	1982 tax rate (percent)			1983 tax rate (percent)		
	U.S. tax rate on U.S. income	Foreign tax rate on foreign income	World-wide tax rate on world-wide income	U.S. tax rate on U.S. income	Foreign tax rate on foreign income	World-wide tax rate on world-wide income
Aerospace	(0.6)	49.9	7.1	14.0	54.0	18.1
Beverages	20.5	48.6	28.8	18.7	52.3	27.3
Broadcasting	8.9	44.2	13.7	18.5	38.2	21.7
Chemicals	(17.7)	67.4	47.3	(1.0)	71.2	52.9
Computers and office equipment	26.4	51.9	37.1	26.3	54.3	38.1
Construction	15.9	32.8	22.6	.7	38.0	29.3
Electronics and appliances	14.3	38.3	21.4	7.4	40.4	16.4
Financial institutions	(3.8)	33.9	24.3	6.4	39.1	24.3
Food processors	31.6	48.6	36.5	25.9	39.0	29.3
Glass and concrete	(1)	34.7	17.9	17.5	47.5	24.4
Instruments	21.9	41.1	26.9	32.8	50.1	36.7
Insurance	(6.3)	(1)	(2.5)	9.9	(1)	12.9
Investment companies	21.3	27.6	23.3	9.3	20.2	13.8
Metal manufacturing	(1)	(1)	(1)	(1)	(1)	(1)
Metal products	30.2	67.9	42.8	15.1	42.0	29.3
Mining	(1)	(1)	(1)	(1)	48.8	(1)
Motor vehicles	(1)	(1)	(1)	3.5	41.2	10.4
Paper and wood products	36.1	(1)	42.5	(.5)	56.6	7.2
Petroleum	18.2	62.1	38.2	21.3	60.0	42.0
Pharmaceuticals	32.7	45.5	38.3	27.2	39.3	32.1
Retailing	20.4	41.5	21.6	20.0	43.6	21.3
Rubber	39.0	(1)	59.6	19.6	68.4	35.0
Soaps and cosmetics	33.3	53.6	38.0	35.6	52.0	38.9
Telecommunications	1.6	57.3	2.3	4.8	(1)	5.6
Tobacco	36.3	18.6	32.7	33.8	27.9	32.9
Transportation:						
Airlines	(1)	(1)	(1)	(1)	2.6	(1)
Railroads	4.1	....	4.1	3.3	....	3.3
Trucking	36.9	(1)	37.2	34.5	54.7	34.6
Utilities (electric and gas)	15.6	....	15.6	7.1	....	7.1
Wholesalers	36.1	14.5	34.1	34.8	(1)	35.9
Average, all Companies	16.1	55.0	29.6	16.7	54.3	29.2

[1] Rate not computed because before tax income is negative.

Source: Joint Committee on Taxation, Study of 1983 Effective Tax Rates of Selected Large U.S. Corporations, Nov. 14, 1983, pp. 11, 12; and Nov. 28, 1984, pp. 20, 21.

TABLE 13.—TAX EXPENDITURES BY FUNCTION, 1984

[In millions of dollars]

Description	Corporations	Individuals
National defense:		
Exclusion of benefits and allowances to Armed Forces personnel		1,825
International affairs:		
Exclusion of income earned abroad by United States citizens		1,300
Deferral of income of domestic international sales corporations (DISC)	850	...
Exclusion of income of foreign sales corporations (FSC)	...	...
Deferral of income from controlled foreign corporations	345	...
General science, space, and technology:		
Expensing of research and development expenditures	3,355	140
Credit for increasing research activities	1,360	20
Suspension of the allocation of research and experimentation expenditures	55	...
Energy:		
Expensing of exploration and development costs:		
Oil and gas	485	930
Other fuels	*	...
Excess of percentage over cost depletion:		
Oil and gas	325	850
Other fuels	355	15
Capital gains treatment of royalties on coal	10	90
Exclusion of interest on State and local industrial development bonds for certain energy facilities	90	70
Residential energy credits:		
Supply incentives		325
Conservation incentives		270
Alternative, conservation and new technology credits:		
Supply incentives	195	25
Conservation incentives	10	*
Alternative fuel production credit	10	*
Alcohol fuel credit[1]	*	*
Energy credit for intercity buses	10	*
Special rules for minning reclamation reserves	10	*
Natural resources and environment:		
Expensing of exploration and development costs, nonfuel minerals	*	...
Excess of percentage over cost depletion, nonfuel minerals	315	15
Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities	640	500
Tax incentives for preservation of historic structures	90	165
Capital gains treatment of iron ore	*	15
Capital gains treatment of certain timber income	215	80
Investment credit and seven-year amortization for reforestation expenditures	20	*

TABLE 13.—TAX EXPENDITURES BY FUNCTION, 1984—Continued

[In millions of dollars]

Description	Corporations	Individuals
Agriculture:		
Expensing of certain capital outlays	75	565
Deductibility of patronage dividends and certain other items of cooperatives	980	−400
Capital gains treatment of certain income	20	550
Commerce and housing credit:		
Dividend exclusion		495
Exclusion of interest on small issue industrial development bonds	1,265	985
Exemption of credit union income	240	
Excess bad debt reserves of financial institutions	635	
Exclusion of interest on life insurance savings		3,190
Deductibility of interest on consumer credit		12,680
Deductibility of mortgage interest on owner-occupied homes		22,735
Deductibility of property tax on owner-occupied homes		8,820
Exclusion of interest on State and local housing bonds for owner-occupied housing	1,225	275
Exclusion of interest on State and local debt for rental housing	435	295
Capital gains (other than agriculture, timber, iron ore and coal)	1,440	17,615
Deferral of capital gains on home sales		1,705
Exclusion of capital gains on home sales for persons age 55 and over		755
Carryover basis of capital gains at death		3,860
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures	20,285	3,160
Accelerated depreciation on rental housing	150	530
Accelerated depreciation of buildings other than rental housing	4,325	1,965
Accelerated depreciation of machinery and equipment	12,810	1,280
Safe harbor leasing rules	2,800	
Amortization of start-up costs	20	160
Exclusion of interest on certain savings certificates		320
Reinvestment of dividends in public utility stock		415
Reduced rates on the first $100,000 of corporate income	4,910	
Deduction for special percentage of taxable income for life insurance companies	455	
Transportation:		
Deferral of tax on shipping companies	40	
Exclusion of interest on State and local bonds for mass commuting vehicles	35	30
Deduction for motor carrier operating rights	70	5
Community and regional development:		
Five-year amortization for housing rehabilitation	25	35

TABLE 13.—TAX EXPENDITURES BY FUNCTION, 1984—Continued

[In millions of dollars]

Description	Corporations	Individuals
Investment credit for rehabilitation of structures (other than historic)	200	165
Exclusion of interest on IDBs for airports, docks and sports and convention facilities	230	170
Education, training, employment, and social services:		
Exclusion of scholarship and fellowship income		605
Exclusion of interest on State and local student loan bonds	220	65
Exclusion of interest on State and local debt for private nonprofit educational facilities	120	30
Parental personal exemption for students age 19 or over		1,060
Deductibility of charitable contributions (education)	420	700
Employer educational assistance		15
Exclusion of employer provided child care		5
Exclusion of employee meals and lodging (other than military)		725
Exclusion of contributions to prepaid legal services plan		35
Tax credit for ESOPs	1,430	......
Credit for child and dependent care expenses		1,875
General jobs credit	*	......
Targeted jobs credit	275	55
Deduction for two earner married couples		6,170
Deductibility of charitable contributions other than education and health	525	9,580
Deductions for certain adoption expenses		10
Exclusion of parsonage allowances		125
Cafeteria plans		25
Health:		
Exclusion of employer contributions for medical insurance premiums and medical care		19,145
Deductibility of medical expenses		3,165
Exclusion of interest on State and local debt for private nonprofit health facilities	1,065	250
Deductibility of charitable contributions (health)	260	1,400
Tax credit for orphan drug research	15	......
Social Security and Medicare:		
Exclusion of untaxed social security benefits:		
Disability insurance benefits		1,245
OASI benefits for retired workers		13,815
Benefits for dependents and survivors		3,755
Income security:		
Exclusion of untaxed railroad retirement system benefits		615
Exclusion of workmen's compensation benefits		2,165
Exclusion of public assistance benefits		515
Exclusion of special benefits for disabled coal miners		155
Exclusion of untaxed unemployment insurance benefits		2,045
Exclusion of disability pay		75
Exclusion of military disability pensions		120

TABLE 13.—TAX EXPENDITURES BY FUNCTION, 1984—Continued

[In millions of dollars]

Description	Corporations	Individuals
Net exclusion of pension contributions and earnings:		
Employer plans		44,050
Individual Retirement Accounts		10,990
Keoghs		1,410
Exclusion of other employee benefits:		
Premiums on group term life insurance		1,910
Premiums on accident and disability insurance		125
Income of trusts to finance supplementary unemployment benefits		20
Additional exemption for the blind		40
Additional exemption for elderly		2,520
Tax credit for the elderly and disabled		145
Deductibility of casualty losses		370
Earned income credit [2]		330
Veterans benefits and services:		
Exclusion of veterans disability compensation		1,640
Exclusion of veterans pensions		195
Exclusion of GI bill benefits		135
Exclusion of interest on State and local debt for veterans housing	200	40
General government:		
Credits and deductions for political contributions		275
General purpose fiscal assistance:		
Exclusion of interest on public purpose State and local debt	6,235	1,895
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes		20,895
Tax credit for corporations receiving income from doing business in United States possessions	1,310	....
Exclusion of possessions source income	1,310	....
Interest:		
Deferral of interest on savings bonds		720

---

*$2.5 million or less. All estimates have been rounded to the nearest $5 million.

[1] In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts of $215 million in 1984.

[2] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays in 1984 is $1,120 million.

Source: Executive Office of the President, Office of Management and Budget, Special Analysis, Budget of the United States Government, fiscal year 1986, pp. 6-43-47; and Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 1984-1989, Joint Committee on Taxation, November 9, 1984, Washington: U.S. Government Printing Office, 1984, pp. 10-16.

Section 2. Bibliographic Information

The following is a list, prepared by the Congressional Research Service of the Library of Congress, of the principal sources for Federal tax statistics that are published by agencies of the Federal Government. The listings are arranged by publishing agency and include brief annotations where appropriate. The entries are principally printed material but include several computer tape filings.

I. Internal Revenue Service Publications

A. STATISTICS OF INCOME

The most detailed and comprehensive source for statistics on Federal taxes is published by the Internal Revenue Service in its *Statistics of Income* series, the components of which are usually published on an annual basis. The data in the reports are based on information on tax returns filed with the IRS. The reports consist of a wide variety of statistical information on income tax liabilities as well as characteristics of the income that generates the liabilities. The series began in 1916 and until 1954 reported statistics from all forms of tax returns in a single one or two volume series entitled *Statistics of Income.* Beginning with 1954 the series was separated into several components, according to the type of income tax returns on which the statistics were based.

Regular reports

The following *Statistics of Income* reports are generally issued annually.

U.S. Internal Revenue Service. Statistics of Income. 1916–53. Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Corporation Income Tax Returns. 1954- . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Estate Tax Returns. 1954- . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Individual Income Tax Returns. 1954- . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Partnership Returns. 1977- . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Sole Proprietorship Returns. 1977- . Washington, U.S. Gov't. Print. Off., various dates.

The following series was published on a regular basis for tax years 1957 through 1976, but was replaced, beginning in 1977 by the *Partnership* and *Sole Proprietorship* series' listed above.

———. Statistics of Income: Business Income Tax Returns, 1957/58–76. Washington, U.S. Gov't. Print. Off., various dates.

Supplemental reports

In addition to its regular series; the Internal Revenue Service published supplementary *Statistics of Income* reports containing a variety of tax statistics. The most recent of these reports are listed here.

U.S. Internal Revenue Service, Statistics of Income: Domestic International Sales Corporation Returns, 1972, 1973 and 1974. Washington, U.S. Gov't Print. Off., 1980.

———. Statistics of Income: Foreign Income and Taxes Reported on Individual Income Tax Returns, 1972-78. Washington, U.S. Gov't. Print. Off., 1981.

———. Statistics of Income: Foreign Tax Credit Claimed on Corporation Returns, 1974. Washington, U.S. Gov't. Print. Off., 1980.

———. Statistics of Income: Sales of Capital Assets Reported on Individual Income Tax Returns, 1973. Washington, U.S. Gov't. Print. Off., 1980.

———. Statistics of Income: Individual Retirement Arrangements, 1976. Washington, U.S. Gov't. Print. Off., 1980.

———. Statistics of Income: Private Foundations, 1974-78. Washington, U.S. Gov't. Print. Off., 1981.

———. Statistics of Income: U.S. Corporations and their Controlled Foreign Corporations, 1974-78. Washington, U.S. Gov't. Print. Off., 1981.

———. Statistics of Income: Foreign Income and Taxes Reported on U.S. Income Tax Returns, 1976-79. Washington, U.S. Gov't. Print. Off., 1982.

In addition to the reports cited above, the Internal Revenue Service publishes preliminary income tax data in its *Statistics of Income Bulletin.* This publication began in 1981 and is published on a quarterly basis.

B. OTHER INTERNAL REVENUE SERVICE PUBLICATIONS

U.S. Internal Revenue Service. Annual Report of the Commissioner of Internal Revenue and the Chief Counsel for the Internal Revenue Service. 1863/64—Washington, U.S. Gov't. Print. Off., various dates.

This annual document is in the nature of an administrative report. Accordingly, while it does contain relatively detailed statistics on taxes that overlap to some degree with the *Statistics of Income* series, its emphasis is different. Statistics reported include actual tax collections by type of tax rather than tax liabilities such as reported in *Statistics of Income.* Other administrative data such as refunds issued are also reported. Also, statistics are reported on a fiscal year basis rather than by tax year, as with the *Statistics of Income* series.

In addition to the above series, much of the raw data that appears in organized form in the *Statistics of Income* series is available in the form of computer tape files. The following tape files are available on a reimbursable basis from the Statistics of Income Division, Internal Revenue Service.

Individual Tax Model File, 1966-82, including State Tax Model File, 1979-1981
Estate Tax File, 1972, 1976
Corporation Source Book, 1965-76, 1979-81
Private Foundations File, 1974
Employee Plans File, 1977
Exempt Organizations File, 1975

II. Department of the Treasury Publications

The Department of the Treasury issues several regular reports that contain statistics on Federal taxes. Several of these reports contained statistics on tax receipts in the context of Federal receipts as a whole. The Treasury Department also issues reports on several specific provisions of the Internal Revenue Code, providing a wide variety of statistics.

U.S. Department of the Treasury. Annual Report of the Secretary of the Treasury on the State of the Finances, 1815- . Washington, U.S. Gov't Print. Off., various dates.

The Annual Report contains a brief section on tax receipts by type of tax, shown in the context of budget receipts as a whole. The statistics are reported on a fiscal year basis. Annual reports have not been published since 1980.

———. High Income Tax Returns. 1974/75–1975/76. Washington, U.S. Gov't. Print. Off., 1977, 1978.

The Treasury Department is required by P.L. 94-455 to issue annual reports on high income tax returns. The reports emphasize returns with little or no tax liability. Beginning with tax year 1979, the report was integrated into the regular Statistics of Income volume for individuals.

———. Operation and Effect of the Domestic International Sales Corporation Legislation, 1972- . Washington, U.S. Gov't Print. Off., 1974–81.

This report is required annually under P.L. 92-178.

———. Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, 1976- . Washington, U.S. Gov't. Print. Off., 1979, 1980, 1982.

This report is required to be made annually by P.L. 94-455.

———. Operation and Effect of the Possessions Corporation System of Taxation, 1978- . Washington, U.S. Gov't Print. Off., 1978–80.

This report is required to be made annually by P.L. 94-455.

———. Treasury Bulletin. Washington, U.S. Gov't Print. Off., 1939- .

This quarterly publication reports tax receipts by type of tax on a monthly basis and in the context of Federal receipts as a whole.

———. Treasury Combined Statement of Receipts, Expenditures and Balances of the United States Government, 1940- . Washington, Dept. of the Treasury, various dates.

The annual Combined Statement also report tax receipts by type of tax in the context of budget receipts as a whole, but on a fiscal year basis. Its statistics are generally more detailed than those published in the Annual Report of the Secretary.

III. OTHER EXECUTIVE BRANCH PUBLICATIONS

U.S. Department of Commerce. Bureau of the Census. Historical Statistics of the United States, Colonial Times to the Present. Bicentennial Edition, part 2. Washington, U.S. Gov't Print. Off., 1975.

This volume contains a section on Government finances that presents a wide variety of historical tax statistics gathered from the IRS and Treasury Department sources listed above, although in a generally less detailed form.

———. Statistical Abstract of the United States 1978- . Washington, U.S. Gov't. Print. Off., various dates.

The Statistical Abstract also contains statistics on Federal taxes gathered from sources previously listed. Because it is published annually, statistics it reports are more current than those in the Bureau's Historical Statistics volume. However, less historical detail is provided.

———. Bureau of Economic Analysis. National Income and Product Accounts of the United States, 1929–76: Statistical Tables. Washington, Dept. of Commerce, Sept. 1981.

This volume contains tax statistics on an historical basis in the context of the National Income and Product Accounts.

———. Survey of Current Business. Washington, 1921- .

Published on a monthly basis, this serial also reports tax statistics in the context of the National Income and Product Accounts.

U.S. Federal Trade Commission. Quarterly Financial Report for Manufacturing, Mining and Trade Corporations. Washington, 1947- .

This quarterly report contains statistical information based on samples of financial reports filed with the FTC by corporations. Corporate tax information is reported in aggregate form in the context of balance sheets.

U.S. Office of Management and Budget. Budget of the United States Government. 1921- . Washington, U.S. Gov't. Print. Off., various dates.

The principal budget document, issued on a fiscal year basis, generally contains a section that projects future budget receipts by source. The corresponding section of the Fiscal Year 1986 document is Part 4. In addition, the budget generally contains a section comprised of summary tables that include historical statistics on tax receipts. These tables are in Part 9 of the Fiscal Year 1986 document.

———. Budget of the United States Government, 1986: Historical Tables. Washington, U.S. Gov't. Print. Off., 1985.

———. Budget of the United States Government, 1986: Special Analysis B—Federal Transactions in the National Income Accounts. Washington, U.S. Gov't. Print. Off., 1985.

Associated with the principal budget document, but published separately are numerous analyses of topics related to the budget. Special Analysis B contains statistics on tax receipts in the context of the National Income and Product Accounts.

———. Budget of the United States Government, 1986: Special Analysis G—Tax Expenditures. Washington, U.S. Gov't. Print. Off., 1985. Special Analysis G contains statistics related to tax expenditures.

U.S. President. Economic Report of the President, Transmitted to the Congress, 1947- . Washington, U.S. Gov't. Print. Off., various dates.

This annual document contains summary statistics on Federal tax receipts in the context of total Federal receipts on both a calendar and fiscal basis and with some historical detail.

An additional Federal agency from which tax statistics are available is the Securities and Exchange Commission (SEC). Many corporations are required to file financial statements with the SEC that include tax information. These statements, filed on form 10K, are not compiled and published by the SEC but are accessible to the general public at the SEC Public Reference Office, 4050 5th St. N.W., Washington, D.C.

IV. Legislative Branch Sources

The Joint Committee on Taxation frequently publishes revenue estimates prepared by its staff. These are usually associated with revenue measures that are pending before or have recently been passed by Congress or that are otherwise of interest. The estimates generally appear in reports of the House Ways and Means Committee, the Senate Finance Committee, or in Joint Committee prints. Some of the Joint Committee's recent revenue estimates are contained in the publications listed below.

U.S. Congress. Joint Committee on Taxation. Estimates of Federal Tax Expenditures for Fiscal Years 1984–1989. Joint Committee Print, JSC–39–84. Washington, U.S. Gov't. Print. Off., 1984.

———. General Explanation of the Economic Recovery Tax Act of 1981. Joint Committee Print, 97th Cong., 1st. sess., Dec. 29, 1981. Washington, U.S. Gov't. Print. Off., 1982.

———. General Explanation of the Revenue Provisions of the Tax Equity and Fiscal Responsibility Act of 1982. Joint Committee Print, 97th Cong., 2nd sess., Dec. 31, 1982. Washington, U.S. Gov't. Print. Off., 1982.

———. General Explanation of the Revenue Provisions of the Deficit Reduction Act of 1984. Joint Committee Print, 98th Cong., 2nd sess., 1984, Washington, U.S. Gov't. Print. Off., 1985.

———. Schedule of Present Federal Excise Taxes (As of January 1, 1985). Joint Committee Print, January 31, 1985; Washington, U.S. Gov't. Print. Off., 1985.

———. Study of 1983 Effective Tax Rates of Selected Large U.S. Corporations. Joint Committee Print, Nov. 28, 1984; Washington, U.S. Gov't. Print. Off., 1984.

———. Summary of Present Federal Excise Taxes. Joint Committee Print, 98th Cong., 1st sess., 1983. Washington, U.S. Gov't. Print. Off., 1983.

U.S. Congress. Senate. Committee on the Budget. Tax Expenditures: Relationships to Spending Programs and Background Material on Individual Provisions. Committee Print, 97th Cong., 2nd sess., March 17, 1982. Washington, U.S. Gov't. Print. Off., 1982.

In connection with its function of providing Congress with information and analysis of the Federal budget, the Congressional

Budget Office (CBO) frequently publishes statistics on tax receipts along with its budget reports. Much of CBO's statistics is projections of tax receipts for future years. A listing of recent CBO publications that contain tax data is provided below.

U.S. Congressional Budget Office. An Analysis of the President's Budgetary Proposals for Fiscal Year 1985. Washington, U.S. Gov't. Print. Off., February 1984.

———. Baseline Budget Projections for Fiscal Years 1985–89; A Report to the Senate and House Committees on the Budget—Part II. Washington, U.S. Gov't. Print. Off., February 1984.

———. The Economic and Budget Outlook: An Update. Washington, U.S. Gov't. Print. Off., August 1984.

———. Forecasting Individual Income Tax Revenues: A Technical Analysis. Washington, U.S. Gov't. Print. Off., August 1983.

———. Reducing the Deficit—Spending and Revenue Options: A Report to the Senate and House Committees on the Budget—Part III. Washington, U.S. Gov't. Print. Off., February 1984.

———. Revising the Individual Income Tax. Washington, U.S. Gov't. Print. Off., July 1983.

———. Tax Expenditures: Current Issues and Five-Year Budget Projections for Fiscal Years 1984–1988. Washington, U.S. Gov't. Print. Off., October 1983.

PART 4

OTHER MATTERS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Section 1. Public Debt, Debt Management, and Interest Payments
Section 2. The Federal Financing Bank
Section 3. Pension Benefit Guaranty Corporation
Section 4. Capital Construction Fund

Section 1. Public Debt, Debt Management, and Interest Payments

This section describes the relationship between changes in the public debt and the budget as well as the statutory limitations on the conduct of debt management. A variety of data descriptive of the public debt are also provided.

An increase in the gross public debt during a fiscal year is approximately equal to the Federal funds deficit plus the deficit of off-budget Federal entities. The Federal funds deficit reduced by trust fund surpluses equals the unified budget deficit. Federal funds receipts are derived mainly from taxes and are used for the general purposes of the Government. The trust funds collect certain taxes and other receipts for specified purposes, such as payment of social security benefits, in accordance with the terms of a trust agreement or statute. Thus, even if the unified budget were in balance, the public debt would still increase if the Federal funds were in a deficit position and the trust funds accumulating an offsetting surplus. In general, trust fund surpluses are invested in special issue public debt securities. Even if both Federal funds and trust funds were in balance, the gross public debt would increase if the off-budget Federal entities were in a deficit position. The largest of the off-budget Federal entities, in terms of its deficit, is the Federal Financing Bank discussed below in Section 2.

An increase in the gross public debt is not precisely equal to the Federal funds deficit plus the deficit of off-budget Federal entities because, to a limited extent, deficits can be financed by means other than borrowing. For example, if the Federal Government ends the fiscal year with a smaller cash balance than at the beginning of the year, that decline in the cash balance would substitute for borrowing from the public.

It is, of course, possible for the public debt to decline. For example, this would occur if a Federal funds surplus exceeded the deficit of off-budget Federal entities. If at the same time the trust funds were in a surplus position, investment of those surpluses in public debt securities would be accomplished by the Treasury not issuing new debt to replace maturing debt held by the public and instead issuing new special issues to the trust funds. In economic terms, the debt held by the public—that is the amount that excludes the debt held by trust funds—has much more significance than the total debt outstanding.

The range of possible impacts of the deficits or surpluses of Federal funds, trust funds, and off-budget Federal entities on the unified budget deficit, gross public debt and debt held by the public is summarized in the table below. For example if the Federal funds account is in deficit, the unified budget deficit will be larger, as will be the gross public debt and the debt held by the public.

Beginning in fiscal year 1993, the transactions of the social security trust funds (other than for supplemental medical insurance) will be moved "off budget," as provided by the Social Security Amendments of 1983 (Public Law 98-21). That change in budget concepts will not affect the definition of the public debt nor its economic implications.

	Impact on		
	Unified budget deficit	Gross public debt	Debt held by the public
Federal funds:			
Deficit	+	+	+
Surplus	–	–	–
Trust funds:			
Deficit	+	0	+
Surplus	–	0	–
Off-budget Federal entities:			
Deficit	0	+	+
Surplus	0	–	–

Table 1 provides actual information on the budget and public debt. This information is taken from the budget documents for fiscal year 1986. As a part of its budget proposals, the Administration recommends placing all the off-budget Federal entities on-budget. This would have the affect of increasing budget outlays and deficits but not affecting the debt subject to limit. Table 1 shows both outlay and deficit figures broken down by their on-budget and off-budget components.

Table 2 shows the statutory debt limit and debt subject to limit at the end of each fiscal year since 1973. The gross public debt is larger than the amount subject to limit primarily because certain debts issued by Federal agencies are not, by statute, subject to the debt ceiling. The amount of such agency debt outstanding has been reduced in recent years. For a more complete discussion of the budget and debt concepts see special analyses C and E in Special Analyses, Budget of the United States Government, Fiscal Year 1986.

Statutory limitations have traditionally been placed on Federal debt. Until World War I, the Congress ordinarily authorized a specific amount for each debt issue. Beginning with the Second Liberty Bond Act of 1917, however, the nature of the limitation was modified in several steps until it developed into a ceiling on the total amount of most Federal debt outstanding. The latter type of limitation has been in effect since 1941.

In 1971, the statutory debt limit was set at a permanent limit of $400 billion. Temporary increments that usually expired in a year or less were periodically enacted. Since the debt subject to limit was more than $400 billion, new legislation was required no later than the expiration date of each temporary increment. Three times in recent years the temporary increment expired without having been extended, so for a few days on each occasion the Federal debt exceeded the statutory limit. The validity of debt issued prior to the expiration of the temporary ceiling was not affected, but the Treasury Department had to suspend all sales of savings bonds and other debt securities until a new temporary ceiling was enacted.

The distinction between the permanent and temporary debt limit was eliminated by Public Law 98–34 (enacted May 26, 1983). The limit was increased to $1,823.8 billion on October 13, 1984 (Public Law 98–475). The public debt subject to limit on December 31, 1984, was $1,676.7 billion.

Rules enacted in 1979 integrate the House's procedure for setting of the public debt limit with the congressional budget process. Under this procedure (House Rule XLIX), when the conference report on a budget resolution is adopted and specifies a public debt limit for a fiscal year which differs from the statutory limit in effect, the Enrolling Clerk of the House prepares a joint resolution which changes the current statutory public debt limit consistent with the level of public debt specified in the budget resolution. The vote by which the House agreed to the conference report on the budget resolution is deemed to have been a vote in favor of the joint resolution on the public debt. If there is no conference report, the House vote to adopt the budget resolution applies. The joint resolution is then sent to the Senate for legislative action. After final passage by both Houses, the joint resolution is transmitted to the President for his signature.

As part of this process, the Committee on Ways and Means submits a specific recommendation in its March 15th report to the House Budget Committee for the appropriate public debt limit to be included in the budget resolution.

This procedure does not preclude changing the public debt limit at any time by passing a public debt limit bill that originates in the Committee on Ways and Means.

Table 3 provides information on the ownership of the public debt. Interest received on the public debt held by Federal Reserve Banks is in excess of the costs of operating those banks. Excess earnings of the Federal Reserve Banks are paid over to the Treasury and classified as miscellaneous budget receipts. During fiscal year 1984, these payments totaled $15.7 billion.

Table 4 shows the composition of interest-bearing public debt by kind of obligation. Current law constrains the composition of the debt by a 4½ percent interest rate ceiling on bonds with a maturity at date of issue of 10 years or more. Under current law, $200 billion of long-term bonds are exempt from the 4½ percent interest rate ceiling. This limitation was most recently revised by Public Law 98–302 which increased the limitation from $150 billion to $200 billion.

Prior to the enactment of Public Law 97–248, the Tax Equity and Fiscal Responsibility Act of 1982, the rate of interest on savings bonds was constrained. The rate could not have been increased by more than 1 percentage point in any 6-month period. The 1982 Act repealed that limitation thus allowing the Treasury Department to issue savings bonds with a variable rate of interest. The Treasury Department's new savings bond program went into effect on November 1, 1982.

The maturity distribution of the debt is shown in table 5. This distribution can be summarized in terms of the average maturity of the debt. Debt management primarily involves decisions regarding the maturity composition of the debt. The longer the average maturity of the debt, the smaller the amount of maturing securities that must be refinanced with new issues at any one time. Smaller refunding operations are less likely to disturb capital markets. On the other hand, lengthening the average maturity of the debt requires issuing more longer term securities that are competitive with securities issued to finance private capital formation. Longer term securities typically carry higher interest rates than short-term securities so that lengthening the average maturity of the debt may result in higher interest payments.

Table 6 shows the growth of net interest payments by the Federal Government. In 1984, $153.8 billion of interest on the public debt was paid out. This was offset by interest received by trust funds, primarily the social security and civil service retirement funds, and other interest received. Included in this letter amount is interest earned by the Federal Financing Bank and, as a negative item, interest paid on refunds of tax collections. Net interest payments in 1984 were $111.1 billion, and 13 percent of total budget outlays.

TABLE 1.—BUDGET RECEIPTS, OUTLAYS, AND DEBT, 1976–84 [1]

[In billions of dollars]

Description	1976	1978	1980	1982	1984
Receipts:					
Federal funds	201.1	270.7	350.9	409.3	418.1
Trust funds	132.5	166.5	212.1	270.1	338.1
Interfund transactions	−35.5	−37.4	−45.8	−61.6	−89.7
Total budget receipts	298.1	399.7	517.1	617.8	666.5
Outlays:					
Federal funds	277.2	342.4	433.5	543.4	636.3
Trust funds	130.1	153.8	203.3	263.9	305.2
Interfund transactions	−35.5	−37.4	−45.8	−61.6	−89.7
Total budget outlays	371.8	458.7	590.9	745.7	851.8
(On-budget under current law)	(364.5)	(448.4)	(576.7)	(728.4)	(841.8)
(Off-budget under current law)	(7.3)	(10.4)	(14.2)	(17.3)	(10.0)
Surplus or deficit (−):					
Federal funds	−76.1	−71.7	−82.6	−134.2	−218.2
Trust funds	2.4	12.7	8.8	6.2	32.9
Budget surplus or deficit (−)	−73.7	−59.0	−73.8	−127.9	−185.3
(On-budget under current law)	(−66.4)	(−48.6)	(−59.6)	(−110.6)	(−175.4)

TABLE 1.—BUDGET RECEIPTS, OUTLAYS, AND DEBT, 1976–84 [1] —Continued

[In billions of dollars]

Description	1976	1978	1980	1982	1984
(Off-budget under current law)	(−7.3)	(−10.4)	(−14.2)	(−17.3)	(−10.0)
Debt outstanding, end of year:					
Gross Federal debt	631.9	780.4	914.3	1,147.0	1,576.7
Held by the public	480.3	610.9	715.1	929.4	1,312.6

[1] Includes outlays that are off-budget under current law and proposed to be included on-budget.

Source: The United States Budget in Brief, Fiscal Year 1986, Executive Office of the President, Office of Management and Budget, p. 64.

TABLE 2.—STATUTORY DEBT LIMIT AND DEBT SUBJECT TO LIMIT, 1974–84

[In billions of dollars]

End of fiscal year	Statutory debt limit	Debt subject to limit
1974	495.0	475.2
1975	577.0	534.2
1976	636.0	620.6
1977	700.0	700.0
1978	798.0	772.7
1979	830.0	827.6
1980	925.0	908.7
1981	999.8	999.8
1982	1,143.1	1,142.9
1983	1,389.0	1,378.0
1984	1,573.0	1,573.0

Source: Treasury Bulletin, 4th Quarter, Fiscal 1984, p. 20.

TABLE 3.—ESTIMATED OWNERSHIP OF PUBLIC DEBT SECURITIES, 1976–84

[Par. values; [1] billions of dollars]

End of year	Total public debt securities	Held by Government accounts	Held by Federal Reserve Banks	Held by private investors											
				Total	Commercial banks [2]	Nonbank investors									
						Total	Individuals [3]			Insurance companies	Money market funds	Corporations [5]	State and local governments [6]	Foreign and international [7]	Other investors [8]
							Total	Savings bonds [4]	Other securities						
1976	653.5	147.1	97.0	409.5	103.5	306.0	101.6	72.0	29.6	16.2	1.1	23.5	39.8	78.1	45.7
1977	718.9	154.8	102.8	461.3	98.9	362.4	107.8	76.7	31.1	19.9	.9	18.2	51.9	109.6	54.1
1978	789.2	170.0	110.6	508.6	95.0	413.6	114.0	80.7	33.3	20.0	1.5	17.3	64.5	133.1	63.2
1979	845.1	187.1	117.5	540.5	88.1	452.4	118.0	79.9	38.1	21.4	5.6	17.0	74.1	119.0	97.3
1980	930.2	192.5	121.3	616.4	112.1	504.3	117.1	72.5	44.6	24.0	3.5	19.3	87.9	129.7	122.8
1981	1,028.7	203.3	131.0	694.5	111.4	583.1	110.8	68.1	42.7	29.0	21.5	17.9	104.3	136.6	163.0
1982	1,197.1	209.4	139.3	848.4	131.4	717.0	116.5	68.3	48.2	39.1	42.6	24.5	127.8	149.5	217.0
1983	1,410.7	236.3	151.9	1,022.6	188.8	883.7	133.4	71.5	61.9	56.7	22.8	39.7	155.1	166.3	259.8
1984 [9]	1,572.3	263.1	155.0	1,154.1	183.0	97.1	147.5	73.7	73.8	58.6	13.6	47.7	NA	175.5	NA

---

[1] U.S. savings bonds, series A–F and J, are included at current redemption value.

[2] Includes domestically chartered banks, U.S. branches and agencies of foreign banks; New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.

[3] Includes partnerships and personal trust accounts.

[4] Includes U.S. savings notes. Sales began May 1, 1967, and were discontinued June 30, 1970.

[5] Exclusive of banks and insurance companies.

[6] Includes State and local pension funds.

[7] Consists of the investment of foreign balances and international accounts in the United States.

[8] Includes savings and loan associations, credit unions, nonprofit institutions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain Government deposit accounts, and Government-sponsored agencies.

[9] September estimate.

Source: Economic Report of the President, 1985, p. 327.

TABLE 4.—INTEREST-BEARING PUBLIC DEBT SECURITIES BY KIND OF OBLIGATION, 1974–84

[In billions of dollars]

End of fiscal year	Total interest-bearing public debt securities	Marketable				Nonmarketable				
		Total	Treasury bills	Treasury notes	Treasury bonds[1]	Total	U.S. savings bonds	Foreign government and public series[2]	Government account series	Other[3]
1974	473.2	266.6	105.0	128.4	33.1	206.7	62.0	25.0	115.4	4.3
1975	532.1	315.6	128.6	150.3	36.8	216.5	65.5	23.2	124.2	3.6
1976	619.3	392.6	161.2	191.8	39.6	226.7	69.7	22.0	130.6	4.9
1977	697.6	443.5	156.1	241.7	45.7	254.1	75.4	21.8	140.1	16.8
1978	767.0	485.2	161.0	267.9	56.4	281.8	79.8	21.7	153.3	27.1
1979	819.0	506.7	161.4	274.2	71.1	312.3	80.4	28.1	176.4	27.4
1980	906.4	594.5	199.8	310.9	83.8	311.9	72.7	25.2	189.8	24.2
1981	996.5	683.2	223.4	363.6	96.2	313.3	68.0	20.5	201.1	23.7
1982	1,140.9	824.4	277.9	442.9	103.6	316.5	67.3	14.7	210.5	24.1
1983	1,375.8	1,024.0	340.7	557.5	125.7	351.8	70.0	11.4	234.7	35.5
1984	1,559.6	1,176.6	356.8	661.7	158.1	383.0	72.8	8.8	259.5	41.8

[1] Includes Treasury bonds and minor amounts of Panama Canal and postal savings bonds.

[2] Nonmarketable certificates of indebtedness, notes, bonds, and bills in the Treasury foreign series of dollar-denominated and foreign-currency denominated issues.

[3] Includes depository bonds, retirement plan bonds, Rural Electrification Administration bonds, State and local bonds, and special issues held only by U.S. Government agencies and trust funds and the Federal home loan banks.

Note.—Through fiscal year 1976, the fiscal year was on a July 1–June 30 basis; beginning October 1976 (fiscal year 1977) the fiscal year is on an October 1–September 30 basis.

Source: Treasury Bulletin, 4th Quarter, Fiscal 1984, p. 17, and prior issues.

TABLE 5.—MATURITY DISTRIBUTION AND AVERAGE LENGTH OF MARKETABLE INTEREST-BEARING PUBLIC DEBT SECURITIES HELD BY PRIVATE INVESTORS, 1974–84

[Dollars in billions]

End of fiscal year	Amount outstanding, privately held	Maturity class					Average length	
		Within 1 year	1 to 5 years	5 to 10 years	10 to 20 years	20 years and over	Years	Months
1974	164.9	87.2	50.1	14.2	9.9	3.5	2	11
1975	210.4	115.7	65.9	15.4	8.9	4.6	2	8
1976	279.8	151.7	89.2	24.2	8.1	6.7	2	7
1977	326.7	161.3	113.3	33.1	8.4	10.5	2	11
1978	356.1	163.9	133.0	33.5	11.4	14.8	3	3
1979	380.5	181.9	127.6	32.3	18.5	20.3	3	7
1980	463.7	220.1	156.2	38.8	25.9	22.7	3	9
1981	549.9	256.2	182.2	48.7	32.6	30.1	4	0
1982	682.0	314.4	221.8	75.7	33.0	37.1	3	11
1983	862.6	379.6	295.0	99.2	40.8	48.1	4	1
1984	1,017.5	437.9	332.8	130.4	49.7	66.7	4	6

Note.—All issues classified to final maturity. Through fiscal year 1976, the fiscal year was on a July 1–June 30 basis; beginning October 1976 (fiscal year 1977), the fiscal year is on an October 1–September 30 basis.

Source: Treasury Bulletin, 4th Quarter, Fiscal 1984, p. 20, and prior issues.

TABLE 6.—INTEREST PAYMENTS, 1976–1984

[In billions of dollars]

	1976	1978	1980	1982	1984
Interest on the public debt	37.1	48.7	74.8	117.2	153.8
Interest received by trust funds	−7.8	−8.5	−12.0	−16.1	−20.4
Other interest	−2.6	−4.7	−10.2	−16.1	−22.4
Total net interest	26.7	35.4	52.5	85.0	111.1

Source: Executive Office of the President, Office of Management and Budget, the United States Budget in Brief, Fiscal Year 1986, p. 73.

Section 2. The Federal Financing Bank

LEGISLATIVE HISTORY

The Federal Financing Bank (FFB) was established by Public Law 93-224 after favorable consideration by the House Committee on Ways and Means and the Senate Committee on Banking, Housing and Urban Affairs. The House and Senate agreed to the conference report on December 19, 1973. (House Reports 93-299, Committee on Ways and Means and 93-700, Conference Committee, and Senate Report 93-166, Committee on Banking).

OPERATIONS OF THE FFB

The FFB was created as an off-budget Federal agency in the Treasury Department as a means of coordinating Federal borrowing efforts, reducing the costs of Federal borrowing from the public, and minimizing the disruption of Federal borrowing in the private markets. At the time the FFB was established, Federal credit programs had expanded to the point that some Federal financing was going to the market every few days. Accordingly, the FFB was authorized to purchase the obligations of any Federal agency and obligations guaranteed by Federal agencies. The FFB began operations in May 1974. Although the FFB was authorized to borrow in its own name in the private markets, it has done so only once. Since then, the FFB has borrowed directly from the Treasury Department, and it in turn has borrowed that amount in addition to the borrowing needed to finance the budget deficit. Hence, the Federal debt is increased as the Treasury Department borrows to accommodate the FFB.

The FFB's outstanding holdings have grown dramatically, from $35 billion in fiscal year 1977 to $107.8 billion in fiscal year 1981, $124.3 billion in fiscal year 1982, $135.9 billion in fiscal year 1983, and $144.7 billion in fiscal year 1984. Much of this growth has occurred in the purchase of Federally-guaranteed loans. Because of the process used in purchasing new guaranteed loans, FFB purchases of such guaranteed loans have the effect of converting agency guaranteed loans into a direct off-budget loan of the Federal government. When the FFB purchases the loan assets of other Federal agencies, the effect is to transfer the direct agency loan into an off-budget loan of the FFB.

There is no statutory limit on the magnitude of the FFB's operations. Accordingly, the only controls are indirect and result from whatever limits may be imposed in the authorizations or appropriations processes on the credit activities of other Federal agencies. Since 1980, the Administration and Congress have been working to develop a more comprehensive system for controlling Federal credit activities in the budget process. The Administration proposes appropriations limits on new direct loan obligations and loan guarantee commitments as part of the budget process. These requests are then acted upon by Congress through regular appropriations bills. Presently, however, limits have been proposed for more than half the Federal credit budget.

OUTLAYS AND ACQUISITIONS

Table 1 illustrates that FFB annual outlays have grown from $14.4 billion in fiscal year 1980 to $21 billion in fiscal year 1981, declining to $7.3 billion in fiscal year 1984. Over the same period, the FFB's outstanding portfolio has grown from $64 billion to $145 billion. Annual acquisitions have ranged over the period from $18 billion to over $30 billion.

Table 2 contains a distribution of FFB annual outlays by Federal agency or program. Actual outlays are shown for fiscal years 1982, 1983, and 1984. As these data illustrate, FFB's outlays are devoted primarily to the credit programs of the Farmers Home Administration and the Rural Electrification Administration and to foreign military sales.

TABLE 1.—FEDERAL FINANCING BANK ACTIVITIES

[In millions of dollars]

	Fiscal year—				
	1980	1981	1982	1983	1984
New acquisitions	22,188	30,269	26,232	18,295	19,448
Net outlays	14,365	20,956	14,155	10,396	7,336
Outstandings [1]	83,072	107,799	124,301	135,923	144,709

[1] Includes balance of direct loans and purchases of Federal agency debt.

Source: Special Analysis F, Table F–4, Budget of the United States, Fiscal Years 1980–82; Table F–5, Budget of the United States, Fiscal Year 1983; Table F–8, Budget of the United States, Fiscal Year 1984; Table F–17, Budget of the United States, Fiscal Year 1985; Table F–22, Budget of the United States, Fiscal Year 1986.

TABLE 2.—DISTRIBUTION OF FEDERAL FINANCING BANK OUTLAYS

[In millions of dollars]

Description	1982	1983	1984
Outlays from direct loans, by agency or programs:			
Farmers Home Administration: Certificates of beneficial ownership	4,915	2,955	2,820
Rural Electrification and Telephone revolving fund:			
Certificates of beneficial ownership	528	344	69
New originations	3,939	2,657	1,648
Foreign military sales credit	2,288	2,858	2,818
Student Loan Marketing Association	700	0	0
Housing and Urban Development:			
Community Development	43	60	31
Low rent public housing	696	443	112
Transportation: Railroad programs	78	15	−904
National Aeronautics and Space Administration	120	189	8
Small business investment companies	151	182	254
Tennessee Valley Authority: Seven States Energy Corporation	336	161	137
Energy projects	340	554	366
Other	22	−22	−22
Subtotal, outlays from direct loans	14,155	10,396	7,336
Interest, transfer of surplus, and administrative expenses [1]	−12	9	−60
Total, FFB outlays	14,142	10,404	7,277

[1] Net effect on outlays from nonlending activities.

Note: Details may not add due to rounding.

Source: U.S. Budget, Fiscal Year 1986, part 6, p. 6–14, U.S. Budget, Fiscal Year 1985, part 6, p. 6–13, and U.S. Budget, Fiscal Year 1984, Special Analysis F.

Section 3. Pension Benefit Guaranty Corporation

LEGISLATIVE HISTORY

The Pension Benefit Guaranty Corporation (PBGC) was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) (88 Stat. 829, Public Law 93-406) to protect the retirement income of plan participants and their beneficiaries covered under private sector, defined benefit pension plans. Public Law 96-364 requires that the Corporation's receipts and disbursements are to be on-budget and included in the Government's budget totals.

EXPLANATION OF THE CORPORATION AND ITS FUNCTIONS

Administration

The Pension Benefit Guaranty Corporation is a wholly owned Government corporation, administered by a board of directors, the chairman being the Secretary of Labor; other directors being the Secretary of Commerce and the Secretary of the Treasury. ERISA provides for a 7-member Advisory Committee, appointed by the President, for staggered 3-year terms. The Advisory Committee is to advise the PBGC as to its policies and procedures relating to the appointment of trustees in termination proceedings, investment of moneys, plan liquidations, and other matters as requested by the PBGC.

Plan Termination Insurance Generally

Individuals protected by the pension plan termination insurance program (Title IV of ERISA) are participants and beneficiaries of defined benefit pension plans that either affect interstate commerce or are qualified under the Internal Revenue Code. Only vested benefits are insured. Pension plans specifically excluded from the plan termination insurance program are government and church plans, individual account plans (i.e., defined contribution plans such as profit-sharing, money purchase, thrift and savings, and stock bonus plans), and plans of fraternal societies financed entirely by member contributions.

A. Single-Employer Plans

Terminated single employer plans are taken over by the PBGC and a trust fund is established for plans taken into trusteeship. The PBGC assumes control of the plan assets and takes responsibility for the expected plan liability. The trust pays the share of benefit payments actually funded by plan assets and employer liability. The balance is paid by the revolving funds.

Pension benefits for vested employees under defined benefit plans are guaranteed by the PBGC. The limitation on insured benefits under single employer plans is the lesser of 100 percent of the employee's wages or $1,687.50 a month. The dollar amount is adjusted annually to reflect changes in the Social Security contribution and benefit base.

B. Multi-Employer Plans

For multiemployer pension plans, the PBGC insures plan insolvency rather than plan termination. Financially troubled multiemployer plans may reorganize and adjust benefits under regulations of the PBGC which may extend loans to enable the plans to continue paying benefits.

Different benefit guarantee levels exist for participants in multiemployer pension plans. As a result of the Multiemployer Pension Plan Amendments Act of 1980 (Public Law 96-364), only the first $5 of the monthly benefit accrual rate is 100 percent guaranteed for each year of a participant's service, and 75 percent of the next $15 of the basic monthly benefits is guaranteed. (The 75 percent guaranty is reduced to 65 percent for plans that do not meet specified funding requirements.)

Financing

The PBGC is required by ERISA to be self-supporting. Sources of financing are insurance premiums from on-going defined benefit pension plans, assets from terminated plans, investment income and employer liability. Any change in the PBGC's insurance premium rate for single employer pension plans must be approved by a joint resolution of Congress. The PBGC may increase the premium rate for multiemployer plans up to certain limits imposed by law. The financial structure of PBGC's programs includes both revolving and trust funds, borrowing authority, and other sources of income.

A. Revolving Funds

Four revolving funds are employed to insure basic and non-basic pension plan benefits. One fund is used in connection with the basic benefits and contingent liability insurance programs related to single employer plans. A second fund is used in connection with the basic benefits and contingent liability insurance programs related to multiemployer plans. A third fund is associated with nonbasic benefits insurance programs related to single employer plans. A similar fund, the fourth revolving fund, is used in connection with non-basic benefits insurance programs for multiemployer plans.

B. Trust Funds

(1) *Plan Assets.* The assets of plans for which PBGC has become trustee are the primary source of funding for the trust fund.

(2) *Employer Liability.* An employer sponsoring a covered pension plan that terminates with insufficient assets to pay benefits is liable for up to 30 percent of the employer's net worth in the case of single employer plans, and in the case of multiemployer plans, an amount equal to an employer's share of the plan's total unfunded vested liability determined under the basic rule or one of the alternative rules which the plan may adopt.

(3) *Investment Income.* Assets of plans and employer liability collections are invested in a diversified portfolio of private and public sector securities to realize the highest possible rate of return consistent with an appropriate level of risk for the type of program administered.

C. Sources of Income

(1) *Insurance Premiums.* The principal source of revenue for the plan termination insurance program is premiums required to be paid by ongoing covered plans. The PBGC is required to prescribe insurance premium rates and coverage schedules to provide sufficient revenues to carry out its title IV functions, including the payment of guaranteed benefits and administrative expenses. Premiums for each participant in a single employer plan are set at $2.60. Multiemployer plans are assessed a per capita premium rate beginning with $1.00 increasing to $1.40 for the first four plan years beginning after September 26, 1980; $1.80 for the fifth and sixth plan years; $2.20 for the seventh and eighth plan years; and $2.60 for the ninth and succeeding plan years.

D. Borrowing Authority

In addition to the premium and investment incomes which are generated for the revolving funds, the PBGC is authorized to borrow up to $100 million from the United States Treasury to carry out its responsibilities.

Termination insurance programs cover 33 million participants and beneficiaries in defined benefit pension plans.

The following tables show the status of the PBGC's insurance programs and its financial condition. In budgetary terms, PBGC outlays are basically benefit obligations minus income to the funds. As long as this income exceeds the amount of benefit obligations, outlays are presented as a negative figure.

TABLE 1.—CURRENT FINANCING AND OUTLAYS OF THE PBGC

[In millions]

	1984 actual	1985 estimate	1986 estimate
Obligations:			
Benefit payments	141.9	182.0	211.0
Other	38.1	34.8	33.8
Total	180.0	216.8	244.8
Financing:			
Premium income	95.0	92.4	101.1
Benefit payment reimbursement	63.1	92.2	106.8
Other (primarily interest)	31.8	44.3	27.9
Total	189.9	228.9	235.8
Outlays as shown in Federal budget	−9.9	−12.1	9.0

Source: Fiscal year 1986 Budget of the United States, appendix.

TABLE 2.—FINANCIAL CONDITION OF FUNDS

[In millions]

	1981 actual	1982 actual	1983 actual	1984 actual	1985 estimate	1986 estimate
Assets	195.2	286.2	309.2	304.1	453.0	625.4
Liabilities	325.7	606.0	724.3	832.6	1,015.7	1,175.9
Government equity	−130.5	−319.8	−415.0	−528.5	−562.7	−550.5

Source: OMB Budget Appendices for fiscal year 1984, fiscal year 1985, and fiscal year 1986.

The following table provides information on terminated plans and trusteeships.

TABLE 3.—PLAN TERMINATIONS AND TRUSTEESHIPS

	1984 actual	1985 estimate	1986 estimate
Plans terminated during year:			
With sufficient assets	5,600	5,600	6,000
With insufficient assets	100	100	100
Government trusteeships at end of year	1,008	1,108	1,208
Payees in Government trusteeships receiving monthly benefits from the Corporation	39,254	55,000	70,000
Checks issued	428,774	600,600	764,400

Source: Fiscal year 1986 Budget of the United States, appendix.

Section 4. Capital Construction Fund

LEGISLATIVE HISTORY

The Merchant Marine Act of 1936, as originally enacted, contained provisions providing preferential tax treatment for shipowners who establish Capital Construction Funds (CCF). Numerous amendments to the provisions have been adopted over the years. In 1970, the Merchant Marine Act was amended to expand the coverage of the provisions of a Capital Construction Fund and to lay out more specifically the tax treatment under these provisions. (Prior to 1970, the tax-deferred construction fund was available only to U.S. ship operators in subsidized foreign trade; the 1970 amendments extended the use of the provisions to operators in unsubsidized foreign trade as well and, in addition, to operators in the Great Lakes trade, the non-contiguous domestic trade—such as that with Alaska, Hawaii, and Puerto Rico—and in the fisheries of the United States.) Under the procedural rules adopted by the House in 1974 (H. Res. 988) which specifically established the jurisdiction of each House committee, it is clear that jurisdictional responsibility for the tax aspects of Capital Construction Funds fall within the jurisdiction of the Committee on Ways and Means.

GENERAL EXPLANATION

Any citizen of the United States owning or leasing one or more eligible vessels may enter into an agreement with the Secretary of Commerce to establish a Capital Construction Fund with respect to any or all such vessels.

Under the Capital Construction Fund provisions, any U.S. shipowner can defer the tax on income from the operation of "eligible vessels" if the shipowner deposits that income into a Capital Construction Fund established to accumulate funds for the acquisition (including construction and reconstruction) of "qualified vessels." Income from amounts deposited in a Fund are not taxed currently. In addition, no tax is imposed on amounts from the fund if the amounts are withdrawn to acquire a qualified vessel. (The tax is payable, with interest, from the date of deposit if the funds are used for any other purpose.) Earnings and profits of the firm are determined without regard to the Capital Construction Fund provisions. Excess accumulated earnings (for purposes of applying the accumulated earnings tax under Internal Revenue Code section 531) are computed without taking amounts in the fund into account. When withdrawals from the Capital Construction Fund are used to acquire, construct, or reconstruct a qualified vessel, the tax basis (for the purpose of determining the gain on the sale or depreciation deductions) of the vessel is reduced to the extent the cost of acquisition is attributable to tax-deferred income or gains deposited in the Fund or to the tax-exempt earnings of the Fund. Thus, the deferred tax will in effect be recaptured by the Federal Government over the recovery period of the acquired vessel as a result of its reduced basis for purposes of computing recovery allowances (unless of course, those earnings are redeposited in the Capital Construction Fund for the acquisition of other vessels). For purposes of determining the amount of investment tax credit allowable for withdrawals from the Capital Construction Fund, Internal Revenue Code section 46(g) deems the amount of the qualified investment to be 50 percent of the withdrawal.

To be an eligible vessel (the earnings of which may be tax-deferred), a vessel (1) must have been constructed or reconstructed in the United States, (2) must be documented under U.S. law, and (3) must be operated in the foreign or domestic commerce or fisheries of the United States. Under present law, qualified vessels (those that can be acquired with amounts withdrawn from a capital construction fund) include vessels (1) constructed or reconstructed in the United States, (2) documented under U.S. law, and (3) operated in the foreign, Great Lakes, fisheries, or non-contiguous domestic trade (e.g., U.S. mainland to Hawaii or Alaska) of the United States.

The statutory provisions relating to Capital Construction Funds are located at 46 U.S.C. 1177.

The "Estimates of Federal Tax Expenditures for Fiscal Years 1984–89" (published by the Joint Committee on Taxation on November 9, 1984) estimates the loss of Federal revenue due to the deferral of tax on shipping companies as follows (millions of dollars):

	Revenue loss
Fiscal years:	
1984	40
1985	45
1986	70
1987	100
1988	125
1989	140

○